Austria Sch 20; Bahrain Din 0.650; Belgium BFr 45; Canada C$1.00; Cyprus C£0.70; Denmark DKr 8.00; Egypt E£1.00; Finland Fmk 6.50; France Fr 6.00; Germany DM 2.20; Greece Dr 80; Hong Kong HK$12; India Rup 15; Indonesia Rp 2500; Israel IS 3.50; Italy L 1500; Japan Y550; Jordan Fils 500; Kuwait Fils 500; Lebanon LL 25.00; Luxembourg LFr 45; Malaysia Rm 4.25; Mexico Pes 300; Morocco Dh 8.00; Netherlands Fl 2.75; Norway NKr 7.00; Philippines Pes 20; Portugal Esc 90; S. Arabia Rls 6.00; Singapore S$ 4.10; Spain Pta 175; Sri Lanka Rup 30; Sweden SKr 7.00; Switzerland SFr 2.20; Taiwan NT$65; Thailand Bt 30; Tunisia Din 1.375; Turkey L 350; U.A.E. Dh 6.50; U.S.A. $1.00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 29,985 — Monday July 21 1986 — D 8523 B

South Africa: Howe steers clear of the rocks, Page 17

World news

Stalemate in Italian political crisis

Attempts by Mr Giulio Andreotti, the Italian Christian Democrat, to form a new compromise government collapsed at the weekend. He is expected to go to President Francesco Cossiga today and admit the failure of his efforts.

Mr Andreotti said there was no consensus between the Christian Democrats and the Socialist Party of caretaker Prime Minister Mr Bettino Craxi. Mr Andreotti had proposed that Mr Craxi should return as Prime Minister until next January, when the Christian Democrats would take over.

General elections might now be held as soon as this autumn or next spring, well ahead of the end of the present parliament in 1988. Page 18

Hussein in Iraq

King Hussein of Jordan visited Baghdad to discuss "bilateral relations, Arab issues and the Gulf war" with Iraqi President Saddam Hussein, a Jordanian official said.

Israel welcomes aid

Israel would welcome West German economic aid requested by Jordan for the Israeli-occupied West Bank and Gaza, Israeli defence minister Yitzhak Rabin was quoted as saying.

Beirut bus ambush

Four Christians died when gunmen ambushed an American University of Beirut hospital bus, the first serious challenge to a Syrian-backed security plan for west Beirut.

Kidnap search

More than 1,000 troops scoured Basilan island in the southern Philippines in search of Swiss businessman Hans Kunzli, who was abducted by suspected Moslem separatists.

Journalist held

New York Times correspondent John Burns, a British subject, detained by Chinese police on suspicion of spying, will be allowed to see his wife and British Embassy officials in Peking today, Chinese officials said. Background, Page 2

Refugee flow grows

West Berlin officials pitched tents and cleared a gymnasium to accommodate a flood of refugees arriving from the Middle East via East Germany at the weekend, but said the 250 emergency beds were being rapidly filled.

Miners buried

Four black miners died when a tunnel collapsed at Elandsrand gold mine, west of Johannesburg, South Africa.

Mafia arrests

Six people were arrested and arms seized when Italian police raided a Mafia meeting in a Naples flat.

Rebels hit pipeline

Right-wing rebels in Mozambique said they destroyed a section of a pipeline that carries oil from the port of Beira to Zimbabwe.

Aircraft seized

A Bulgarian Balkan Airlines aircraft was seized at Istanbul airport on a court order for payment of compensation for a Turk killed in a Balkan crash near Sofia in 1984.

Norman wins Open

Australian Greg Norman won the British Open golf championship at Turnberry with a last-round 69 to give him a level-par aggregate of 280. Gordon Brand of England was second with Bernhard Langer (West Germany) and Ian Woosnam (Wales) sharing third place.

WORK STUDY

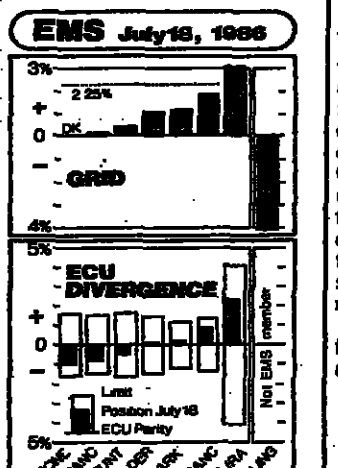
A MAJOR report on the future of work will appear in Thursday's FT. Backed by a specially commissioned Gallup survey, the report covers the world's six biggest market economies.

Business summary

LTV will apply to protect suppliers

LTV, US steelmaker that filed for reorganisation under Chapter 11 bankruptcy proceedings last week, plans to ask the courts to keep funds flowing to suppliers of materials for its military-equipment division, the only part of the group making profits. Page 18

EUROPEAN Monetary System: The D-Mark was stronger in the EMS last week, helped by a decline in the US dollar and Thursday's decision by the Bundesbank not to cut West German interest rates. It was placed as the third strongest currency behind the French franc, which lost ground over the week, and the Italian lira, the latter assisted by a seasonal inflow of funds. The Belgian franc and Danish krone were placed closely together as the two weakest currencies but were comfortably within their respective divergence limits.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

TOKYO share prices closed higher on Saturday as buying spread over a wide front. The market average rose 2.47 to 17,841.31, below the record close of 17,882.80 set on July 15.

EEC finance ministers start talks today on next year's budget.

EGYPT is seeking a rescheduling of some of its estimated $36bn debt. The Bank for International Settlements and the OECD disclosed that the world's main borrowers' indebtedness rose from $747.5bn at the end of 1984 to $821.4bn at end 1985.

SOVIET OIL sector was the only industry not to achieve its planned production quota, according to official figures.

STERLING commercial paper market is to receive a set of guidelines published by a committee under the auspices of the British Bankers' Association. Page 19

CIBA-GEIGY, Swiss chemicals and pharmaceuticals group, reported a 16 per cent decline in turnover to SFr 8.9bn ($5.13bn) during the first half of the year, while Sandoz, another Swiss chemical concern, reported a 3 per cent drop in group sales for the first half of the year to SFr 4.4bn ($2.6bn).

SMH, Switzerland's leading watch-industry group, which makes Omega, Swatch and Tissot watches, expects a rise in group earnings for the current year.

BANCOKLAHOMA, Tulsa holding company for a group of banks, initiated discussions with bank regulators on difficulties at its Bank of Oklahoma subsidiary after a $50.8m loss in the second quarter. Page 19

ZALE CORPORATION, world's biggest fine-jewellery retailer, is facing a rearguard action from the senior management of its UK subsidiary to block its plans to sell off its British interests. Page 18

MCI COMMUNICATIONS, US long-distance telecommunications group, announced a 54 per cent drop in second-quarter earnings to $16.4m from $34.3m in the same period last year. Page 21

US and Japan near accord on semiconductors

BY LOUISE KEHOE IN SAN FRANCISCO AND CARLA RAPOPORT IN TOKYO

SEMICONDUCTOR trade between the US and Japan will be radically altered over the next five years if a working agreement between the US and Japan is approved, as expected, at talks in Washington at the end of this week.

The US and Japan have been involved in a bitter dispute over semiconductor trade for nearly a year. The two main issues are the alleged dumping of semiconductors by Japanese companies in the US and the alleged lack of market access to Japan for US semiconductor makers.

Within the last month, however, a working agreement has been concluded by both sides. That agreement, an outline of which has been obtained by the Financial Times, includes the following provisions:

- Japan will recognise the US industry's goal of obtaining more than 20 per cent of the Japanese chip market in five years, more than doubling US chip market's share of the $9bn Japanese chip market.

This could prove embarrassing to the US Administration since an agreement to such a market-sharing goal would be inconsistent with US free-trade policies.

- Japan will help US chip makers achieve this goal by setting up a top-level organisation in Japan to provide sales assistance and expertise on the Japanese market.
- The US Government will suspend its two anti-dumping cases and its unfair trade action against Japan. In Japan, the Ministry for International Trade and Industry (Miti) will establish a company-by-company price monitoring system on the cost and export prices of eight semiconductor products exported by Japanese companies to the US. Miti's information will be sent directly to the Department of Commerce.

The products covered by this system are understood to include most of the major "commodity" chip types exported to the US by Japan, and account for nearly 90 per cent of the $1bn Japanese chip exports to the US.

One-megabit dynamic random access memory (Dram) chips, however, are apparently not covered by the agreement. The US industry had been anxious to see these new chips included on any list to prevent a repetition of the pattern of price decline seen in earlier generations of Drams.

- The US will be entitled to call immediate consultations with Japan if it believes that any of these products are being exported at below their company-specific fair value. These consultations will have a maximum 14-day limit, unless both governments agree to a longer period.

The agreement also calls for the monitoring of Japan's export prices to countries other than the US, the mechanism for which remains undecided. It is believed however, that the US is pressing for Miti to monitor third-country exports in exactly the same way that it will monitor cost and export prices to the US.

The Japanese maintain that such a system could create legal problems because it would bypass the third country's government or laws.

This, no doubt, will be a major is-

Continued on Page 18

Details, Page 3

Howe mission continues as India quits Games

BY MICHAEL CASSELL, POLITICAL CORRESPONDENT, IN LONDON

INDIA last night withdrew from the Commonwealth Games in protest at the British Government's refusal to take effective measures against South Africa.

The decision came two days before Sir Geoffrey Howe, the British Foreign Secretary, leaves on the second leg of his mission to South Africa, during which he will have two meetings with President P.W. Botha.

India is the largest and most influential of the 24 Commonwealth nations to withdraw so far from the Games, which start later this week.

But despite the growing boycott and renewed talk of a constitutional crisis, all the signs are that the British Government remains determined to complete its diplomatic initiative.

The Indian boycott follow efforts by the Government to obtain British assurances that agreement on effective measures, aimed at ending apartheid in South Africa, would be reached at the forthcoming Commonwealth summit in London.

But the Ministry of Foreign Affairs in New Delhi said the Indian Government had been told that Britain was not in a position to give the assurance asked for. As a result, it had been decided to follow the lead given in Harare by several of the frontline states. Mrs Margaret Alva, the Indian Sports Minister, said the athletes had been told to disperse.

The decision will be regretted by ministers in London but they are emphasising that the Government is not going to abandon its last-minute attempt to obtain concessions from South Africa.

The weekend message was that the Games are not the business of the British Government and, while withdrawals were disappointing, they were a matter for the organisers and the participating countries.

The Government appears equally unmoved by suggestions, raised again at the weekend, that its stand against the introduction of economic sanctions is threatening a constitutional crisis, with the Queen at its centre.

Reports that the Queen is increasingly unhappy over Mrs Thatcher's handling of the South Africa issue and its potentially damaging impact on the Commonwealth yesterday drew a brief response from Buckingham Palace. A spokesman said: "As with all previous prime ministers, the Queen enjoys a relationship of the closest confidentiality with Mrs Thatcher and reports purporting to be the Queen's opinions of government policies are entirely without foundation."

Despite suggestions of a clash between Mrs Thatcher and the Queen, as head of the Commonwealth, both the Palace and Downing Street are understood to have been making every effort to ensure that relationship are not strained at a time when the Commonwealth faces one of its biggest crises.

It was also announced last night that the decision to ban Miss Zola Budd and Miss Annette Cowley from taking part in the Games has been upheld.

- A delegation of trade unionists, including Mr Norman Willis, general secretary of the TUC, and Mr Ron Todd, general secretary of the Transport and General Workers' Union, were yesterday ordered out of Alexandra township, near Johannesburg, by about 100 armed troops.

Court blocks De Benedetti bid for Italian state foods group

BY ALAN FRIEDMAN IN MILAN

ITALY'S biggest privatisation plan – the L497bn ($337m) sale by the IRI state holding group of its SME foods subsidiary to Mr Carlo de Benedetti's Buitoni pasta and chocolates company – collapsed at the weekend when a Rome court ruled the deal invalid.

The court decision, which comes 15 months after Mr de Benedetti signed an agreement for the purchase with Professor Romano Prodi, chairman of IRI, is certain to prove highly controversial.

Perhaps anticipating the ruling, Mr de Benedetti threatened last Friday evening that, unless he could go ahead immediately with the deal, he would "make acquisitions outside Italy in order to create a multinational corporation in the foods sector."

Buitoni has been ordered to pay LIba of court expenses. Although Buitoni is expected to appeal against the court ruling, that process might take 18 to 24 months and Mr de Benedetti has already indicated that he sees little benefit in such an appeal.

The sale of 100 per cent of SME was agreed in a contract signed on April 30 last year. But the deal immediately ran into opposition from Mr Bettino Craxi, then Prime Minister. Several other companies, some of them close to Mr Craxi's Socialist Party, then made counter-offers for SME.

Mr Clelio Darida, the Minister for State Industry, refused to approve the SME privatisation, although it had the blessing of the board of IRI.

The Rome tribunal said in its decision on Saturday that the 1985 contract amounted to nothing more than a preliminary letter of intent, or gentlemen's agreement, which still required Mr Darida's approval. Mr de Benedetti had been hoping to have the contract confirmed as binding.

Prof Prodi was said at the weekend to be satisfied with the court decision because it left him free to consider his options. SME, which had total turnover last year of around L3,000bn, has returned to profits and Prof Prodi may decide to keep it within the IRI group for the time being.

Lisa Wood adds from London: Since his appointment in 1982 Prof Prodi has battled to bring down the losses of IRI (Istituto per la Ricostruzione Industriale) which was set up in 1933 to preserve companies and industries that otherwise would not have survived. The portfolio of companies include steel, telecommunications equipment and services, engineering and Alitalia, the state airline.

In 1985 the conglomerate, which accounts for about 4 per cent of Italy's employment, cut its losses from L2,274bn to L1,592bn ($1bn). The recovery strategy has included selling parts of its diversified holdings to private investors and selling outright non-strategic businesses such as SME.

This Naples-based company controls a range of food manufacturing companies including Cirio and Italgel, a supermarket chain and a string of motorway restaurants. SME, which was nationalised in 1963, made a loss in the six years to 1983 but was profitable in 1984 after recapitalisation and management restructuring.

Chernobyl officials may face criminal charges

By Our Moscow Correspondent

THE CHERNOBYL nuclear disaster in the Soviet Union earlier this year has so far claimed 28 lives and caused 2bn roubles ($2.8bn) in direct damage alone. Thirty people are still in hospital and 173 more are suffering from radiation sickness because of the disaster.

Those were among the main findings of a special report drawn up by the country's ruling Politburo and released at the weekend.

The nuclear accident caused considerable political, economic and psychological damage, the report said. Three government officials and a man involved in the design of the now ruined No 4 graphite-moderated reactor at Chernobyl have been dismissed. Several officials may face criminal charges for gross negligence that caused the accident.

The Politburo said Mr Anatoly Mayorets, Minister of Power since 1985, deserved to be dismissed but had escaped with a strict reprimand and an admonishment to improve performance because he had not held his job for long.

The report said the disaster occurred because poorly prepared experiments were being carried out with a turbine generator as Chernobyl's No 4 reactor was being shut down for routine maintenance.

The experiments had not been cleared with central bodies overseeing the nuclear power industry, the Politburo said.

The officials dismissed included Mr Yevgeny T. Kulov, head of the state committee on safety in the nuclear power industry, Mr G. A. Shasharin, a deputy minister of power engineering and electrification, and Mr Alexander G. Meshkov, a first deputy minister of medium machine building.

Some Western analysts have said that the ministry runs military-related defence programmes. Mr Kulov also worked there before being moved to head the safety committee when it was set up in 1983.

The Soviet media have not mentioned any military function for the Chernobyl plant, but analysts at Planecon Inc. in Washington, DC, have said that Chernobyl-type graphite-moderated reactors can produce varying grades of plutonium, including the high-grade type used in nuclear weapons.

The fourth man dismissed was Ivan Y. Yemelyanov, deputy director of the institute that designed the reactor. His dismissal implied that there might be faults in the design, which is used in 14 Soviet reactors.

Continued on Page 18

Oil sales slump hits Mexican trade surplus

BY DAVID GARDNER IN MEXICO CITY

MEXICO'S trade surplus for the first four months of this year fell steeply compared with the same period last year, largely as a result of a 60 per cent fall in crude oil exports.

At the same time, the country's main production indicators showed manufacturing output sinking into a trough, while inflation in June reached 82 per cent on an annualised basis.

Latest Bank of Mexico figures show total exports for January to April this year at $5.16bn, down 33 per cent on the same period last year. Total imports were $4.19bn, down 4.6 per cent, leaving a surplus for the period of $970m. That compares with surpluses of $3.3bn and $5.3bn for the same periods of 1985 and 1984.

The likely trade surplus for the whole of this year, estimated at $3bn, compares with surpluses of nearly $13bn in 1984 and $8.4bn last year, before the slide in oil prices turned into a collapse. Mexico stands to lose about $8bn in oil revenues this year.

This year's figures for the first four months show the 60 per cent decline in oil income only partly offset by a 24 per cent increase in manufactured exports. Oil last year provided Mexico with around two thirds of its export revenue and although the non-oil sector is growing – particularly under the impetus of recent trade liberalisation measures – it is still far from yielding a trade surplus.

First-quarter figures show a current-account deficit of $531.7m compared with a surplus of the same amount in the first quarter of 1985 despite a 14.5 per cent reduction in the interest bill on the country's $97bn foreign debt. Mexico paid out $2.26bn in interest in the first quarter of this year against $2.66bn in the same quarter last year, when the bill for the year as a whole came to $9.9bn, according to Bank of Mexico figures.

Mexico is currently at what is said to be an advanced stage of negotiations with the International Monetary Fund and its creditor banks on its new finance needs for this year and next. In the past 18 months of declining oil income, it has had no net new external credit. As a result, the Government's cash needs have been financed internally, restricting private-sector access to credit and pushing interest rates to all-time highs.

That is now showing up in output indexes and is – along with the removal of subsidies designed to reduce the public-sector deficit – helping to fuel a rate of inflation approaching the levels of 1983, shortly after Mexico's last financial crisis.

The overall production index in March was down 5 per cent on the same month last year, with falls of 4.2 per cent in general manufacturing and 11.2 per cent in capital goods production over the same period.

Brazilian curbs planned, Page 2

Sliding dollar keeps exchanges nervous

BY GEORGE GRAHAM

CURRENCY traders are watching nervously this morning for signs of renewed intervention by central banks in the foreign-exchange markets in the wake of the dollar's renewed slide last week.

The dollar began to plunge again late in the European trading day on Friday, dipping by more than Y1 to Y158.15 against the Japanese currency and provoking speculation that Japan's central bank might be compelled to lower its discount rate to help to arrest the yen's surge against the dollar.

In Tokyo, however, there appeared to be little indication of an early cut in the discount rate. While the Bank of Japan has been intervening in the currency markets, buying dollars to counter sharp movements in the dollar-yen exchange rate, it is cautious over whether a further cut from 3.5 per cent would in fact contribute to revived economic growth.

After three rate cuts already this year, liquidity is felt to be more than adequate. There is some anxiety that lower rates may be fuelling what is described as asset price inflation, with property prices rising and the stock market already viewed as overheated.

Although industry would like another discount rate cut if that were to stem the yen's climb, Mr Hiroshi Kawasaki, director general of the co-ordination bureau of Japan's Economic Planning Agency, said

Continued on Page 18

Money markets, Page 32

CONTENTS

Brazil braced for further curbs package

BY IVO DAWNAY IN RIO DE JANEIRO

BRAZIL is bracing itself this week for a new economic adjustment package aimed at curbing the consumer spending boom which threatens to undermine the February anti-inflationary programme, the Cruzado Plan.

Details of the measures are yet to be released, provoking speculation that they could include substantially higher taxes on luxury items, such as white goods and cars, and new curbs on credit.

The gloomiest pundits, noting that President Jose Sarney is expected to explain the moves on television, claim that fuel taxes and a new compulsory personal savings plan, created by *the withholding of cash from* pay packets, could also be under discussion.

Some measures, including controls on bank lending to private account holders, have already been introduced, but these have clearly been insufficient to allay mounting government concern over the inflationary pressures now building up as industry races to meet soaring demand.

Recent figures have put the rise in consumption at some 25 *per cent over last year.*

In the automobile industry alone, parts shortages and capacity restraints have pushed waiting lists back three months. This has fed through to the secondhand market, in some cases raising prices above the list values of new models.

Shortages of beef and milk, in part a consequence of the price freeze, have caused growing discontent from consumers and attacks on alleged speculators by government ministers.

Meanwhile, Fiesp, the powerful Sao Paulo industry federation, has openly called on the Government to lift the ban on price rises.

Mr Dilson Funaro, the Finance Minister, has insisted that there will be no relaxation of the Cruzado Plan's tough controls on prices, and has given assurances that the new measures will not hit wage earners.

But there is clear concern within the Government both that monthly inflation rates are still above 1 per cent, and that interest rates for corporate borrowers are now over 30 per cent—a record—at a time when investment in new capacity is a priority.

Pressure for substantial wage rises is also growing, with more than 80,000 workers currently on strike, most for more pay.

Analysts have rejected alarmist claims that the entire Cruzado Plan is now under threat, but several argue that selective price rises in key sectors of the economy should be allowed to reduce inflationary pressure.

US town ready to roll out the bagels

By David Owen in Chicago

VISITORS TO downtown Mattoon, Illinois (pop. 19,055) —a *cornbelt community* about 180 miles south of Chicago—were greeted by a strange sight last week, as they went about their Saturday morning business.

Along a five-block stretch of Broadway, the main commercial thoroughfare, hundreds of people were seated at tables in the middle of the road, eating bagels.

This mass bagel breakfast was laid on by the Dart & Kraft subsidiary, Lender's, to mark the opening of its new Mattoon plant—billed as the world's largest bagel bakery.

The 54,500 sq ft plant will initially produce a mind-boggling 1m bagels per day, with output expected to reach 2m within two years.

"The new plant will enable us to lower transport costs and improve service to two of our fastest-growing markets: the Mid-West and the Sun Belt," according to the company's president, Mr Marvin Lender.

Bagels are very much a growth category in the $30bn (£20bn)-a-year US bread and roll sector. Annual sales have almost doubled in four years to $350m, with daily consumption now exceeding 8m units.

The *30 or so independent* bagel bakeries operational 20 years ago — most clustered around the New York area — have now multiplied to around 700, according to some estimates.

The *ring-shaped bagel* is the only product in the bakery category to be boiled before it is baked. Some say the first was created for the Austrian king in 1683 by a local baker, grateful for the salvation of his village *from the Turks.*

However, community regulations for Krakow, Poland, in 1610, apparently stated that bagels should be given to any woman in childbirth to chew on.

The roll has since proved especially popular in the Jewish community, although Lender's estimates that 80 per cent of its customers are now "non-Jewish."

While Lender's, founded by a Polish immigrant, Mr Harry Lender, in 1927, is the clear leader with a one-third share of the domestic market, it faces some stiff competition, as others recognise the bagel's profit potential.

Fara Lee *Corporation* subsidiary, Kitchens of Fara Lee, recently launched its Bagel Time product nationally in a blaze of publicity, while R. J. Reynolds is also competing in a smaller scale, through its *acquisition of the Kentucky*-based Skolnik's chain.

Despite the impressive recent growth rate, Lender's estimates the bagel's penetration at only 18 per cent of American households.

Mexican GDP growth forecast to decline

BY WALTER ELLIS

MEXICO, hard hit by the decline in oil prices over the past 12 months, can expect an average annual growth in its gross domestic product of only 0.9 per cent between this year *and 1991, according to the latest* forecast by the Economist Intelligence Unit.

Over the past six years, Mexico's GDP has grown annually by about 2.7 per cent.

Inflation says the EIU, is also set to rise, from the average annual rate of 54.3 per cent between 1980 and 1985 to an annual 67.8 per cent up to 1991.

The current account of the balance of payments could deteriorate from 0.3 per cent of GDP over the previous five years, to —0.7 per cent.

Total external debt—already Mexico's most pressing international problem — would rise from the 1985 total of $94.3bn to a still more formidable $115.2bn, exclusive of loans from the International Monetary Fund.

The one bright spot is lower interest rates, which would reduce the country's debt service ratio from the 1980-85 average of 47.4 per cent of the value of exports to 46 per cent.

The EIU bases its forecast *on the assumption that an* accord will be reached between Mexico and the IMF over the next few months that would provide the debt-ridden country with fresh resources.

Should no such accord come about, *the EIU believes that* the Government in Mexico City would seek recourse in the short-term to interest arrears. Growth would be further reduced, although inflation would not increase so rapidly and the current account balance would be higher. In addition, if no further IMF money is agreed, the debt service ratio to 1991 would be held down to 36 per cent of exports.

Mexico, the Economist Intelligence Unit, Economist Publications Ltd., 40 Duke Street, London W1, £150.00.

IADB fails to agree on size of capital increase

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT

THE INTER-AMERICAN Development Bank has again failed to agree on the size of a capital increase that would allow it to step up its lending to Latin American countries under the so-called Baker plan for alleviating the developing country debt crisis, writes Peter Montagnon, Euromarkets Correspondent.

A governors' committee meeting in Paris last week ended with no resolution to the differences principally between the US and Latin American countries that have dogged discussions so far, though delegates said there is now some movement towards a compromise.

A further attempt will be made to settle the capital increase at another round of talks in Washington just ahead of the International Monetary Fund annual meeting in late September.

Latin American members have been firm in the resistance to a US attempt to make the capital increase conditional on the bank agreeing to a change in voting rules which would require a 65 per cent majority for approval of individual loans. This would raise the majority from 50 per cent and give the US a virtual power of veto as it holds 34.5 per cent of the bank's shares.

Last week's talks were the committee's second attempt since the bank's annual meeting in San José, Costa Rica, last March to resolve the capital *increase problem, but time is* now pressing.

The bank cannot make firm plans for a lending increase until it knows how much capital will be available between 1987 and 1990.

Chilean soldiers questioned over photographer's death

BY MARY HELEN SPOONER IN SANTIAGO

THE CHILEAN ARMY has turned 25 soldiers over to a civilian judge investigating the death of a young photographer whom witnesses said was set on fire by a passing military patrol during anti-government protests on July 2. A second victim, an 18-year-old university student, is critical in a Santiago hospital.

Brig Gen Carlos Ojeda, commander of the Santiago army garrison, read a communiqué on Friday stating that three officers, five non-commissioned officers and 17 conscripts had been arrested in connection with the case.

The communiqué said that "a container of inflammable liquid" carried by a demonstrator had ignited the victim's clothing, and that the soldiers had put out the flames.

The army's statement was issued just hours after a senior US State Department official ended a six-day visit to Santiago. The official, assistant deputy secretary of state Robert Gelbard, had urged Chilean officials to undertake a serious investigation of the incident.

Concern over Finnish prices

By Olli Virtanen in Helsinki

FINLAND'S Gross Domestic product (GDP) will grow no more than 1.5 per cent this year, as opposed to earlier estimates of 2.5 per cent, the country's Ministry of Finance says. Meanwhile the Ministry's inflation target of 2.6 per cent for 1986 has already been reached and retail prices may well rise further by the end of this year.

Tim Dickson reports on the first formal discussions about next year's finances

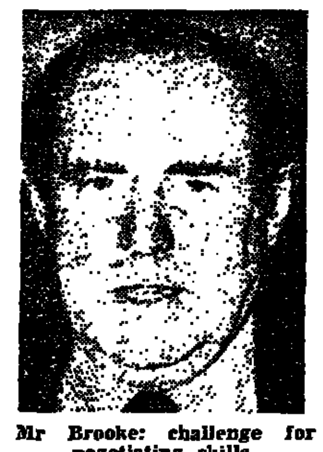
EEC nations resume battle over budget

1986 has just ended; 1987 is already beginning. Only in the world of EEC budget negotiations is it possible to make such a confident statement in mid-July without fear of contradiction, not to say derision.

Less than two weeks after the resolution of the tense struggle between member states and the European Parliament over the level of 1986 spending, Community budget ministers are back in Brussels today for their first formal discussion about next year's finances.

Normally, of course, the gap between one set of deliberations and the next would be much longer—but the European Court's decision earlier in the month to declare the original 1986 budget illegal precipitated an unprecedented and distinctly unseasonal crisis, just as Commission officials and MPs were contemplating their summer holidays.

As they set their sights on next year's plans, the ministers today will face the familiar problems of how to contain spiralling EEC spending on agriculture, how to satisfy the inevitable demand for more expensive regional and social programmes and how, above all, *to keep within the resources* limit implied by the 1.4 per cent VAT ceiling.



Mr Brooke: challenge for negotiating skills

The task this time is likely to be complicated by the first full participation in negotiations of Spain and Portugal, the two countries which joined the Community on January 1 this year. They will no doubt add their voices and votes to the increasingly powerful southern, or Mediterranean, states within *the Community which favour* more spending on regional and social funds at the expense of agriculture.

By contrast, the northern states such as France and West Germany are the biggest beneficiaries of the price support schemes for cereals, beef and dairy products which take the lion's share of spending on the Common Agricultural Policy (CAP).

The new line-up—which effectively gives both camps a *"blocking minority" of votes in* the council—poses a major challenge for the diplomatic and negotiating skills of Mr Peter Brooke, Britain's Minister of State at the Treasury and President for the second half of this year of the EEC's Budget Council.

His courtesy and patience won high marks earlier this month when he delicately brought member states and MPs together over the last lap of the 1986 discussions. But hardened finance ministers on the first lap of the 1987 track could be a different proposition.

The ministers set out this morning trying to reach agreement on the preliminary Draft Budget for next year prepared by the European Commission. *This adds up to Ecu 36.7bn* (£24.2bn) or 4.37 per cent more than the amount finally agreed for 1986.

That 4.37 per cent significantly, is not far short of the maximum 4.5 per cent which Community experts reckon is permissible under the 1.4 per cent VAT resources ceiling. (Although the 1.4 per cent is the same in 1987 as in 1986, anticipated economic growth in member states plus the changing pattern of customs duties and other levies means that more money in nominal terms at any rate is expected to roll into EEC coffers under the formula).

Today's battles will not be fought over the basic shape of the budget which is determined by the insatiable demands of the farm price support schemes and the urgent need to dispose of surplus products on world markets.

A preliminary draft figure of Ecu 22.96bn has been pencilled in for agriculture, a 3.84 per cent increase on this year's figure but within the financial guidelines laid down in 1984.

With so little room for manoeuvre to increase overall spending, the main arguments in the next two days will be *over relatively small sums and* their possible reallocation within the total.

Following the recent constitutional row with the European Parliament, moreover, ministers will also be keen to leave MPs their traditional "margin"—that percentage of total EEC spending over which the elected representatives have direct control.

All these issues, however, are academic beside the major problem of agriculture. While *the Ecu 22.96bn may be the* Commission's best guesstimate for 1987, its calculations could be dramatically overturned by a large number of variables.

The value of the US dollar—the currency in which world agricultural prices are denominated and which consequently determines the size of EEC export subsidies—is one. The success of the Commission's stock disposal is another.

As one official said last week, "Agriculture in 1987 could *easily be the subject of a swing* either way of $1bn."

With butter and beef pouring into EEC stores at an alarming rate, nobody in Brussels is betting that that swing will favour the hard pressed budget negotiators.

ANC reaffirms refusal to meet Howe

BY MICHAEL HOLMAN IN HARARE

A SENIOR member of the African National Congress (ANC) repeated this weekend the organisation's refusal to meet Sir Geoffrey Howe, the British Foreign Secretary, when he makes his second visit to southern Africa this week.

Speaking in Harare during a break in the summit of six southern African countries, known as the front line states, Mr Alfred Nzo, the ANC secretary general, said that there had been no change in the organisation's attitude to the European Community's efforts to secure the release of Mr Nelson Mandela, the detained ANC leader, and persuade the *South African Government to* start constitutional talks with black representatives.

Sir Geoffrey is due to meet President P. W. Botha on Wednesday, and has said he hopes to see a cross section of black leaders during his visit.

Mr Nzo, deputy to Mr Oliver Tambo, the ANC President, refused to see Sir Geoffrey when the Foreign Secretary was in Lusaka earlier this month during his first southern Africa visit. Mr Nzo then described Sir Geoffrey's mission as "unnecessary and a waste of time," and said that to meet the Foreign Secretary "would be a betrayal of our brothers and sisters in South Africa." Bishop Desmond Tutu, the Anglican Bishop of Johannesburg, and Dr *Alan Boesak, a leader of the* United Democratic Front (UDF), South Africa's largest anti-apartheid coalition, have also said they will not meet Sir Geoffrey.

Mrs Winnie Mandela, wife of the detained ANC leader, said after meeting her husband in prison last week that he too would refuse to see the Foreign Secretary.

Nevertheless, Sir Geoffrey starts the second and more critical of his visits to southern Africa with his bargaining position reinforced by two developments in the past week.

In Parliament last Wednesday, with the subsequent backing of Mrs Margaret Thatcher, the Prime Minister, he took a tougher line on the prospect of sanctions against South Africa, *warning that if his mission* failed he would "regard agreement on some further measures (against Pretoria) as necessary."

Secondly, his talks in Washington last week with President Ronald Reagan and the US Secretary of State, Mr George Shultz underlined that he is spearheading what has become a major Western initiative and which is not simply an EEC exercise, a point Sir Geoffrey made to African leaders during his first trip.

British diplomats in Southern Africa are making these points to front line leaders and anti-apartheid campaigners to avert an embarrassing boycott. Of the prominent black anti-apartheid figures in South Africa, only Chief Gatsha Buthelezi, *leader of the Zulu*-backed Incatha movement, is currently prepared to meet Sir Geoffrey.

Pretoria's official facts challenged

By Bernard Simon in Johannesburg

SOUTH AFRICAN newspapers have challenged the Government's version of events during the past week at schools in black townships, raising the first serious doubts about official news on unrest in the country since the state of emergency was imposed six weeks ago.

In the face of official claims that 80 per cent of the country's 1.7m black pupils returned to school after the mid-year break last week, at least two newspapers indicated that the situation at the schools is far from normal.

In terms of state of emergency regulations, newspapers may publish only details of unrest provided or approved by the Government's Bureau for Information. City Press, a black-oriented newspaper, reported yesterday that pupils in least two areas burned identification cards wh. schools have been told to is: as part of official efforts tighten security and discipl.

The Weekly *Mail* reporte total boycott of classes in East Rand and in the Kwan bele "homeland" near Pretor.

The authorities have unt now appeared to take some car since the state of emergency was *imposed to provide* a factual but incomplete account

Meanwhile, South Africa's two English speaking newspaper groups plan a legal challenge against parts of the Government decree restricting coverage of the state of emergency.

The White House was yesterday reconsidering a plan to name a North Carolina businessman as the first black US ambassador to South Africa after questions arose about his past business and professional *contacts, Reginald Dale adds* from Washington.

The appointment of Mr Robert Brown, 51, was reported to be under review after he admitted that he had been a close friend of Mr Umaru Dikko, the former high-ranking Nigerian official who was involved in a failed kidnapping attempt in London two years ago.

Hussein in bid to ease Syria, Iraq tensions

By Simon Henderson in Baghdad

KING HUSSEIN of Jordan has arrived in the Iraqi capital, Baghdad, in an attempt to revive his efforts to bring about a reconciliation between Iraq and Syria, which are ruled by rival factions of the Arab Ba'ath Socialist Party.

Last month, Syria cancelled at the last minute a border meeting between the foreign ministers of the two countries, dashing hopes that Syria might be persuaded to give up its friendship for Iran in the six-year-old Gulf war with Iraq.

Syria's antipathy towards Baghdad means it is the only Arab country apart from Libya to support Iran. In 1982, Damascus closed an Iraqi oil-export pipeline leading across *its territory to the Mediter*ranean coast, and, since then, has supplied arms to Iran in return for oil.

At the time of last month's planned talks, Mr Abdel-Halim Khaddam, the Syrian Foreign Minister, said he did not think conditions were right for reconciliation. Soon after the breakdown, Iran resumed oil shipments to Syria.

Genscher begins Moscow trip

BY RUPERT CORNWELL IN BONN

MR HANS Dietrich Genscher, the West German Foreign Minister, yesterday began a three-day official visit to Moscow, which Bonn dearly hopes will persuade the Soviet Union to inject more urgency into the stagnant relations between the two countries.

Mr Genscher last week betrayed his frustration at Soviet coolness towards West Germany when he expressed the hope that in future Moscow would treat West Germany as an "important factor" in the present arms control negotia*tions involving Europe.*

Publicly the West Germans affect indifference over the low priority that the Soviet Union has deliberately given its relations with Bonn, ever since the present centre-right coalition agreed in late 1983 to the deployment of cruise and Pershing missiles in the country.

In the meantime, Mr Mikhail Gorbachev, the Soviet leader, has met President Reagan, Mrs Thatcher and President Mitterrand but despite the rising hopes for an East-West arms deal, an encounter between Mr Gorbachev and Chancellor Helmut Kohl is unlikely—at least until after the federal elections here next January.

Mr Genscher and his delegation were encouraged by the newspaper Isvestia which yesterday expressed the wish that the visit might improve relations between the countries. During his stay, Mr Genscher will deliver a personal message from Mr Kohl to the Soviet leader underlining West Germany's desire for better links.

A more reliable gauge to the climate will be whether the two countries manage to sign a framework agreement on scientific and technological co-operation, embracing also peaceful nuclear power. Negotiations were continuing yester*day to finalise the accord, which* has been under discussion since 1973 but there was no certainty whether a lingering dispute over the involvement or otherwise of West Berlin could be resolved in time.

Indeed, Berlin may rank close behind the East-West ties and the prospects of a real breakthrough in arm control in the talks which Mr Genscher holds this week with Mr Eduard Shevardnadze, his Soviet opposite number.

Hopes rise for deal on German 'defector'

HOPES were rising last night for a settlement of the dispute between West and East Ger*many over the bizarre case of* Professor Herbert Meissner, the East German economist who allegedly defected but then changed his mind to take refuge in the East German mission here, writes **Rupert *Cornwell in Bonn:***

The improving prospects of a deal stem primarily from what were described in Bonn yesterday as "very satisfactory" talks between a junior minister at the inner-German ministry here and Mr Wolfgang Vogel, the East Berlin lawyer frequently employed as a trouble-shooter for the East German Government.

William Dullforce looks at a draft text which goes a long way to meeting Third World interests

Compromise boosts chances for new Gatt round

THE CHANCES *that trade* ministers will succeed in September in launching international negotiations to revitalise the world trading system have been substantially strengthened by understandings between the industrial nations and "moderate" developing countries.

The draft text of a ministerial declaration submitted in Geneva last week by Switzerland and Colombia to the committee preparing for the talks goes a long way *to meet Third World* interests and to isolate hardline developing countries such as Brazil and India.

It significantly reduces the number of items left for the ministers to settle when they meet at Punta del Este, Uruguay, on September 15 and offers them choices on the remaining crucial issues.

Many negotiators in Geneva now believe the biggest threat to the Punta del Este meeting is posed by the US Congress. If *Congress* on August 6 *overrides* President Reagan's veto on the heavily protectionist Jenkins Bill on US imports of textiles and clothing it could shatter the newly-won understanding with the moderate developing countries.

By some counts, 49 of the 91 countries belonging to the General Agreement on Tariffs and Trade (Gatt), including the US, the European Community and Japan, took part in the series of informal meetings that led to the Swiss-Colombian *draft.*

Among them were the Association of South-East Asian Nations (Asean), newly industrialised countries such as South Korea, several Latin American nations and some African.

The draft is not definitive. It is spattered with brackets offering alternative ways of handling, for instance, agricultural trade and indicating items, such as textiles and clothing, where acceptance of the wording depends on future developments.

The compromise has significantly reduced the number of items for trade ministers to settle when they meet in September and offers them choices on the remaining crucial issues

All the "new issues" such as trade in services, intellectual property rights and trade-related investment, which the US wants dealt with in the new round and which the 10 hardline developing countries insist must be left out, are in brackets. Here, though, an important advance has been made.

The content of the negotiations on these issues has been virtually agreed between the industrial and moderate developing countries. What remains unresolved is the form, the question of how and with what *priority they should be handled.*

In spite of the brackets most negotiators in Geneva regard the Swiss-Colombian draft as the basis for the ministerial declaration that the Gatt preparatory committee will submit to the ministers in Punta del Este.

After missing their mid-July deadline, most members of the preparatory committee now see July 31 as the mark by which the text must be agreed. The new deadline coincides with that for the renewal of the Gatt Multi-Fibre Arrangement (MFA) which governs world trade in textiles and clothing.

The Geneva negotiators face a hectic 10 days. Some will be doubling up in the textile committee and in informal talks within the preparatory committee which will now focus on the political issue of how to deal with the group of 10 hardline *countries.*

The bilateral deals recently negotiated by the US and the EEC with textile and clothing exporting countries and reports that more bilateral deals are in the making have engendered some optimism that an exten*sion of the MFA will be agreed.* This would simplify the work of the preparatory committee.

Gatt traditionally decides by consensus. An effort will now be made in talks with the hardliners to preserve as much consensus as possible in Punta del Este. In addition to Brazil and India the hardline group includes Argentina, Cuba, Egypt, Nicaragua, Nigeria, Peru, Tanzania and Yugoslavia.

The hardliners are under pressure. The EEC, which has tried to play a bridgemaking role, has now made it clear that it is not interested in consensus for its own sake.

Publication of the Swiss Colombian draft has undermined the hardline position by incorporating considerable concessions to developing countries.

It specifies that the trade negotiations will reinforce the preferential treatment accorded to them under Gatt and that they will not be required to make concessions inconsistent *with their "development, financial and trade needs."*

The draft thus contains some reassurance for developing countries that they will not be forced into trading off concessions to the industrial countries on trade in services against *access for their exports of goods* to developed markets but the 10 also argue that the new issues cannot legally be dealt with under the Gatt without changes its statutes.

Other countries accept that the new issues can be incorporated into the Gatt but they want a prudent approach. A possible compromise, which would appear to have EEC support, would spread out the timetable for handling the new issues, singling out one for earlier treatment.

The Swiss-Colombian draft effectively leaves it to the trade ministers to decide in Punta del Este the other hotly-disputed issue of how to negotiate agricultural trade and the export subsidies which currently make it a *freetraders'* nightmare.

The draft lists four alternatives for agriculture. One—the "Australian" solution—would fix the objectives as a reduction of import barriers and a phasing out of export subsidies in an agreed timeframe. This is not acceptable to the EEC.

Another alternative, to which the EEC would subscribe, calls merely for "an examination of the causes of structural surplus stocks and the means of resolving the problem of their dis*posal in a manner which does* not distort international markets."

There is, however, much that is positive for the world economy in the Swiss-Colombian draft. The industrial and moderate developing countries *express determination to halt* and reverse protectionism, to remove trade distortions and to develop a more open, viable and durable trading system.

They plan to enhance the effectiveness and decision-making capacity of the Gatt. One step envisaged would involve ministers more closely in its work.

The draft also spells out how the multilateral negotiations will be organised. A trade negotiating committee (TNC)—*to be established by the end of* October, the draft optimistically suggests—will set up and co-ordinate negotiating groups for the issues agreed on.

The TNC will supervise countries' compliance with the commitments to halt trade-restricting action from the start of the negotiations and to roll back (dismantle) existing restrictions which contravene Gatt rules.

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French win $300m gas pipeline contract

By David Marsh in Paris

Spie-Batignolles, the French construction company which is part of the private sector Schneider conglomerate, has won a $300m (£200m) order to build a gas pipeline linking Bulgaria and Turkey.

The contract, signed with the Turkish state-owned company Turque Botas, will be carried out by Spie Batignolles' subsidiary Spie-Capag as leader of a consortium including Turque Enka of Turkey and the British subsidiary of Texas based Brown and Root.

The order comprises the supply of a turnkey pipeline including compressor stations, guidance, monitoring, surveillance and communication systems.

The pipeline, more than 800km long, will carry gas being supplied from the Soviet Union to Turkey under a recent agreement.

The installation, to be built over the next 21 months, will allow the passage of gas in April 1988 from the Bulgarian-Turkish border to Ankara.

It will also supply Istanbul and surrounding regions, crossing the Sea of Marmara south of Istanbul.

Tokyo may agree to aid US chip sales in Japan

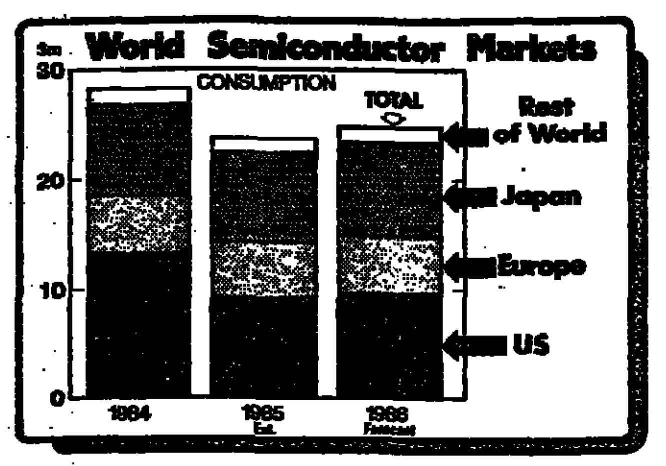
BY LOUISE KEHOE IN SAN FRANCISCO AND CARLA RAPOPORT IN TOKYO

THE FOLLOWING are *excerpts* from the private working agreement between Japan and the US on semiconductor trade which is expected to be approved by both governments in Washington at the end of this week. Those paragraphs entitled, Side Letter, are meant to be circulated to industry executives and government officials only.

MARKET ACCESS—Side Letter

The government of Japan recognises the US semiconductor industry's expectation that semiconductor sales in Japan of foreign capital-affiliated companies will grow to at least slightly above 20 per cent of the Japanese market in five years . . . The attainment of such an expectation depends on competitive factors, the sales efforts of the foreign companies, the purchasing efforts of the semiconductor users in Japan and the efforts of both governments.

The Government of Japan will . . . provide further support for expanded sales by foreign semiconductor companies in Japan through the establishment of an organisation to provide sales assistance for foreign semiconductor companies and through promotion of long-term relationships between Japanese semiconductor purchasers and foreign semiconductor companies.



Both governments recognise the importance of discouraging marketing activities which serve to undercut the intent of this agreement. The government of Japan will compile demand and supply forecasts on the Japanese semiconductor market in compliance with its domestic laws and regulations.

Both governments will make efforts to develop a new method for accurately measuring market growth and sales by foreign semiconductor companies. Pending its development, the existing World Semiconductor Trade Statistics and Ministry for International Trade and Industry's (Miti) estimation based on Government of Japan statistics, as well as Miti's survey on semiconductor procurement, will be used for periodic consultations between the two governments.

PREVENTION OF DUMPING, AND PRICE MONITORING

Both governments recognise the need to prevent dumping in accordance with the General Agreement on Tariffs and Trade (Gatt) provisions.

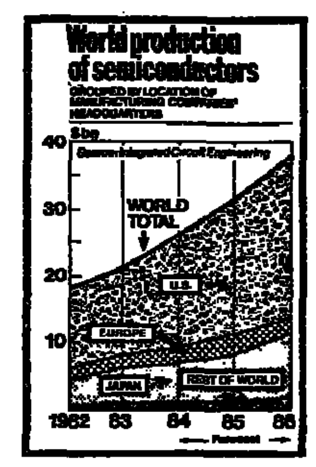
In order to prevent dumping, Japan will monitor costs and prices on the products* exported from Japan to the US . . . These products were identified by agreement of the two governments from among those semiconductors which Japanese *companies produce in substantial* volume, are increasingly exported to the US and meet either of the following criteria:

- They are standard and general use semiconductors or
- There is evidence of a threat of sales at less than fair value.

Products can be added or deleted from the list by mutual consent of both governments.

Company and product-specific cost and export price data on *monitored products will* be submitted by Japanese semiconductor exporters to Miti in accordance with procedures established by Miti. The format and scope of the data report will be mutually agreed by the two governments. The Japanese semiconductor exporters are advised to provide Miti with the data concerning the sales price from their related party in the US to the first unrelated party in the US. [Editorial *note:* This is a reference to Japanese US subsidiaries' sales to their customers in the US.]

If the US believes that exports or sales of any monitored product are being made by Japanese companies in the US at prices less than company-specific fair value and the US provides Japan with information to support that belief, immediate consultations may be requested. Consultations shall have a maximum 14-day *limit*, unless both governments



agree to a longer period.

Japan will take appropriate actions available under laws and regulations in Japan to prevent exports at less than company-specific fair value.

[Based on consultation and with concurrence of the US Japan will take appropriate action through Japanese semiconductor exporters so that their related party in the US will not sell to the first unrelated party in the US at less than company-specific fair value.] (Note: This paragraph is bracketed because of anti-trust concerns.)

The US retains full rights to initiate anti-dumping cases based on any information available to it.

If an anti-dumping action is initiated on any monitored product, Japan shall encourage the affected Japanese exporters to provide the US Department of Commerce *with the data* submitted to Miti within 14 days of a request being presented.

THIRD COUNTRY MARKETS —Side Letter

Japan will monitor company-specific costs and exports prices in order to prevent dumping. (Areas and products, format and scope of the data report to be agreed by the two governments.)

Immediate consultation will be held whenever either government so requests. Consultation will be completed within two weeks.

Based on monitoring or consultation, Japan will take appropriate actions available under laws and regulations in Japan in order to prevent dumping.

Both governments will make efforts not to create any problems to third countries by the operation of this mechanism.

* These products are expected to cover the *following eight* product areas: EPROMs, 256K D-Rams, Static-Rams, Emitter-coupled logic RAMS, 8-Bit and 16-Bit Microprocessors, 8-Bit Microcontrollers, and Asics, including gate arrays and other *custom-designed chips.*

Philippines eases import curbs after IMF call

By Samuel Senoren in Manila

THE PHILIPPINES has removed import control on 262 commodities in a bid to comply with trade reforms demanded by the International Monetary Fund and the World Bank as a condition for further assistance to the country's ailing economy.

The restriction which had been in effect for many years was lifted by the central bank in spite of opposition from local manufacturers who feared a surge in competitively priced products would hit their businesses.

Since May 1, when the Philippines began a trade liberation programme, some 800 items whose importation was either banned or tightly controlled have been freed.

The latest items to be decontrolled included steel *products, petrochemicals,* and raw materials for various manufacturing industries.

The move comes at a time when the Philippines was negotiating with an IMF mission in Manila for a new standby credit arrangement of as much as SDR 615m (£369m) for the next 18 months.

The Philippines which had planned the trade reforms since 1980 is committed to dismantling restrictions on another group of about 200 products by the end of the year.

In all, some 1,000 items whose annual import value is estimated to be in excess of $1bn (£666m) are to be freed by the end of 1986.

Yen rise 'may help Japanese diesel makers'

BY NICK GARNETT

THE RISE in the value of the yen is likely to make life more difficult in the medium and long term for Western producers of diesel engines in competition with Japanese manufacturers, according to a report on the Japanese share of the world's engine markets.

Initially the yen's appreciation will check and might even reverse the export of Japanese equipment and vehicles powered by diesel or petrol engines, says the report by Planning Research and Systems, a business consultancy company.

However, it will also raise the purchasing power of Japanese manufacturers already looking to invest overseas and add to the pressure for local assembly of Japanese vehicles and construction equipment.

"In the longer run, the flexibility and strength of major Japanese equipment makers is likely to lead to the accelerated development of overseas assembly plants and more premium vehicle and equipment products to reduce or absorb the cost penalties of a higher yen."

Engines will be among principal components that continue to be exported in built-up form from Japan or at most locally assembled. This will remain the route most favoured by the Japanese in preference to local manufacture of their engines or buying in from Western sources, the report suggests.

"The increasingly central role of engines in end-product competitiveness and the rising rate of application of new technologies to engine design, together with the traditionally large economies of scale in engine manufacture, all point to the existing pattern of engine exports to present overseas assembly plants continuing.

The Japanese have also decided in some cases to use Western-made engines in locally-assembled Japanese products despite overall advantages in sourcing from Japan.

In the European van market Japanese-designed vehicles might account for up to 40 per cent of sales by 1990, the report says, but some of these vans are and will continue to be powered by European engines.

The Japanese presence in world engine markets 1984-1990, PRS Publications £500.

JAPANESE DIESEL ENGINE PRODUCTION BY APPLICATION 1983-90

Application	1983	1984	1985	1986	1987	1988	1989	1990
Cars	273,457	272,258	302,075	322,000	343,000	355,000	365,000	375,000
Commercial vehicles	1,063,800	1,243,086	1,289,999	1,324,000	1,352,000	1,375,000	1,380,000	1,403,000
Agriculture	631,386	639,681	662,865	685,000	710,000	732,000	739,000	742,000
Construction	139,979	149,579	147,506	149,000	152,000	156,000	160,000	163,000
Industrial	131,914	139,167	137,609	140,000	144,000	146,000	151,000	153,000
Gen sets	100,411	102,923	100,676	102,000	105,000	108,000	109,000	110,000
Marine	54,439	54,187	56,354	58,000	59,500	61,000	61,500	62,000
TOTAL	2,395,432	2,600,860	2,697,101	2,780,000	2,865,500	2,933,000	2,905,500	3,008,000

1985 estimate. 1986-90 forecast.

Source: PRS

Caterpillar to build new engine range

Caterpillar of the US, the world's leading construction equipment maker, is to start manufacturing a new family of medium power diesel engines at its plant at Gosselies, Belgium, Nick Garnett writes.

The four and six cylinder engines of 4.4 and 6.6 litre capacity will be made only at Gosselies initially, but the company intends to manufacture them at other sites eventually.

Cat said the new engines which will principally range from 70 to 240hp will be used first in the company's earth-moving equipment followed by generating sets, industrial and construction machinery and boats as well as being supplied to other equipment makers.

The engines, which will eventually replace the existing heavier and less fuel-efficient 3204 and 3304 engines, have also been designed for use in trucks and in this form will be rated at 150 hp to 240 hp.

SHIPPING REPORT

Tanker rates stabilise

BY ANDREW FISHER, SHIPPING CORRESPONDENT

TANKER RATES stabilised last week as the further slide in oil prices caused big oil companies and independent traders to move back into the market.

Demand for VLCCs and ULCCs (very large and ultra-large crude carriers) from the Gulf was strong enough to allow owners to resist the efforts of charterers to push rates down further, E. A. Gibson, the London-based shipbrokers, said.

In the long-depressed dry cargo market, for cargoes such *as grain, coal and iron ore,* Denholm Coates, the London shipbrokers, said the week had been more active, but freight rates had not improved.

World Economic Indicators

INDUSTRIAL PRODUCTION (1980 = 100)

					% change over previous year
	June 86	May 86	Apr. 86	June 85	
US	114.2	114.8	115.3	114.4	−0.2
	May 86	Apr. 86	Mar. 86	May 85	
UK	108.6	110.1	109.5	109.1	−0.5
	Apr. 86	Mar. 86	Feb. 86	Apr. 85	
W. Germany	110.7	102.0	106.7	102.6	+7.9
France	103.6	100.0	100.7	99.4	+4.2
Italy	99.9	101.4	98.8	95.8	+4.3
Netherlands	107.0	103.2	108.2	101.4	+5.5
Japan	121.7	121.7	122.0	122.1	−0.3

Source (except US, Japan): Eurostat

Toshiba, Mitsui share Kuwait power order

TOSHIBA and Mitsui have received a Y15bn (£48m) order from the Kuwaiti Ministry of Electricity and Water to supply electric power substation facilities, Ian Rodger writes.

The order calls for substations to be built in three districts and facilities to be expanded in two districts. It involves 27 units of 132,000-volt gas-insulated switch gears, three 75,000 kilovolt-ampere transformers and other equipment.

Government to lift curbs on shared house ownership

BY PETER RIDDELL, POLITICAL EDITOR

THE GOVERNMENT intends to remove restrictions on the fixing of rents in the rental part of shared house ownership schemes in order to give a further major boost to home buying.

The fair rent provisions of current legislation strictly control the level of rents and have been a major inhibition on the involvement of the private sector in shared ownership. These schemes allow someone partly to buy the equity of a house and partly to rent, and have so far been mainly taken up by local authorities.

With a change in the law, the private sector potential is officially regarded as being very large, quickly running into tens of millions of pounds, if not more. Major building societies, like the Halifax and the Nationwide, are actively interested, as is the Housing Corporation.

The restrictions on the involvement of the societies in the ownership of property will be eased when the Building Societies Bill becomes law later this week and the Government intends to remove the further limits of the fair rent provisions with amending legislation later this year. An announcement is likely before long.

The change forms part of a general review of housing policy being undertaken by Mr John Patten, the Housing Minister. He argues that the frontiers of conventional owner occupation are not limitless, and that shared ownership offers a way to ensure that everyone who wants to become a house owner can.

Mr Patten stresses the support of housing professionals and the building societies for the removal of the fair rent provisions.

RADICAL proposals for reforming the "present shambles" of distributing £15bn of public funds each year to local authorities are put forward today by Mr John Banham, controller of the Audit Commission, writes Richard Evans. Mr Banham argues that local authorities should have much more flexibility over charging policies and that there should be a property tax paid by all households based on capital values.

Kenneth Gooding reports on a successful joint venture with Perkins

Austin Rover leapfrogs diesel engine rivals

STATE-OWNED Austin Rover has brought another joint venture to a successful conclusion with the launch today of the world's first direct-injection car diesel engine to go into volume production.

Mr John Devaney, managing director of Perkins, Austin Rover's partner in the venture, says the new diesel is "not only a triumph of British engineering inventiveness but also a tribute to the ability of our two companies to work together."

The partners claim they have "leapfrogged" the competition by using direct injection in a high-reving diesel engine to produce substantial fuel economy – 40 per cent ahead of petrol engines and a 15 per cent improvement on conventional, indirect-injection car diesels.

It will therefore take the buyer of the new diesel only about half the time to cover the premium to be paid above the price of a petrol engine compared with an indirect diesel – assuming that diesel and petrol cost roughly the same.

Apart from giving good performance and fuel economy, the partners claim the new diesel is highly durable with a life of at least 2,500 hours, or 100,000 miles, without major overhaul.

The engine also offers extraordinary servicing periods – 300 hours or 12,000 miles, double that of conventional diesel cars.

Direct injection is available in other diesel engines – for example Ford's 2.5 litre unit used in the Transit van – but only in low-reviving power units, typically those producing most pulling power at around 2,500 revs a minute. These direct-injection diesels are not suitable for use in cars.

However, the new Austin Rover-Perkins engine produces its maximum power at 4,500 revs a minute and admirably lends itself to use in cars and car-derived vans. A direct-injection diesel engine enjoys greater efficiency and therefore economy compared with indirect-injection diesels because of its different combustion system.

The indirect-injection system uses a pre-combustion chamber in the cylinder head where the air initially is compressed and fuel ignited before making its way to the space above the piston for the burning process to be completed.

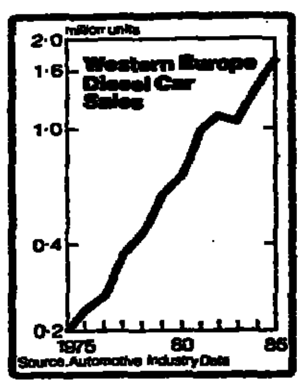
This leads to reduced thermodynamic efficiency as the burning process is delayed and heat release prolonged, much of the energy escaping from the pre-combustion chamber into the surrounding coolant. In addition, more energy is absorbed pumping air and combustion products in and out of the narrow throat of the chamber.

While most of the components which go to make up the new Austin Rover-Perkins diesel are conventional and "off-the-shelf," the direct-injection system employs a unique piston with a built-in bowl which acts as a combustion chamber. All the burning takes place in the piston cavity, reducing heat loss.

The combustion bowl was developed by Perkins in a research programme begun in the 1970s.

The partners claim to have solved major technical problems which have defeated the world's top engine designers for decades in achieving a good mix of air and fuel over wide operating speeds.

The new diesel is offered as a naturally aspirated unit developing 62



bhp at 4,500 revs a minute and in turbo-charged form developing 80 bhp at 4,500 revs.

For industrial applications the engine can be ranged down from 37.5 bhp at 2,400 revs.

Austin Rover, part of the state-owned Rover Group, formerly British Leyland, and Perkins, a subsidiary of the Canadian Varity Corporation, formerly Massey-Ferguson, will also share production of the new diesel, which will be called the MDi when installed in vehicles while the Perkins' versions for industrial and marine use are called Prima.

The diesel's components are based on those used in the 2-litre "0" series Austin Rover engine used in the Maestro and Montego and the new M16 unit just launched in the Rover 800.

About £10m was spent on retooling and on new equipment for the Austin Rover engine lines at Longbridge, Birmingham, where components for the new diesel will be produced before being sent off to Perkins' Peterborough factory for assembly and testing.

Austin Rover has a long history of producing engines in large volumes, while Perkins made 400,000 diesel engines worldwide last year, 130,000 of them at Peterborough where the company employs 500 in one of the largest diesel engine research complexes in the world, with more than 100 test cells devoted to engine development.

In all £27m was spent during the past four years to develop the diesel and bring it into production, not a huge sum by motor industry standards. For example, Ford says it spent more than £100m on its 2.5 litre direct injection diesel and to put it into production at Dagenham in the spring of 1984.

The UK Department of Industry contributed about £5.4m towards the £12m research and development costs of the Austin Rover-Perkins diesel and the partners shared the rest of the expenditure equally.

Initial production capacity is 60,000 a year but this could speedily be lifted to 80,000 and, with the expenditure of a few more millions, to 100,000.

Perkins says it can sell between 20,000 and 30,000 a year to non-automotive customers, including about 5,000 for marine use.

Austin Rover's requirements will depend heavily on demand for car diesels in Britain, the last major market in Western Europe to hold out against diesels but which shows every sign of moving towards the European norm.

Last year sales of diesel cars in Western Europe jumped by 21 per cent from the 1984 total to a record 1.67m, or 15.9 per cent of all the cars registered.

There was some distortion because environmentalists in West Germany turned to the diesel car in a big way. Sales there improved by nearly 65 per cent and the diesel share of the market soared from 13.4 to 22.3 per cent.

However, apart from a minor setback in 1983, diesel car sales in Europe have enjoyed a decade of uninterrupted growth.

Austin Rover will certainly do better in Italy, where diesels took more than 25 per cent of the 1985 market, and France, where the penetration was 15 per cent, with the help of the new engine.

In the UK the diesel will put Austin Rover on a more equal footing with rivals in the car-derived van market where Ford and General Motors-Bedford have had diesel vans for nearly three years. A version of the Maestro van with the diesel will go on sale in September.

Austin Rover will then install the unit in Maestro and Montego models early next year. This will be bound to lift diesel car sales in the UK, particularly if, as some observers suggest, the new diesel will give an average fuel consumption of 60 mpg in the Maestro/Montego models.

But even though diesel car sales moved up sharply from 2.6 per cent to 3.6 per cent on the UK market last year, they have a long way to go to meet the European average.

Other companies have new car diesels on the way – a Ford 1.8 litre is expected in 1988 and Volkswagen-Audi has a 1.8 litre ready for 1987 – and this will also help to keep the European momentum going so that sales of 2m diesel cars a year seem within sight.

Japanese 'will cut car costs by $3,000'

By Our Motor Industry Correspondent

THE JAPANESE by the 1990s will be capable of producing 300,000 cars a year from a factory employing as few as 95 people per shift against 725 today. This will help them cut costs by up to $3,000 a car, according to the latest report from Professor Krish Bhaskar's motor industry research unit at the University of East Anglia.

The appreciation of the yen against other currencies is pushing the Japanese faster towards even greater efficiency and product enhancement, the report suggests.

If the MIRU forecast is right, the Japanese will be producing between 625 and 952 cars per employee (direct and indirect) a year in the 1990s against 200 today.

The report concentrates on quality aspects and concludes that Japanese car makers achieve consistently higher quality standards than European or North American manufacturers.

It measures quality by warranty costs and other evidence. MIRU made a comprehensive survey, interviewed dealers from many franchises and found that Japanese warranty costs – using Nissan as a typical example – averaged £17 per car sold in the UK; against £48 for General Motors (Vauxhall-Opel); £56 for Ford and over £100 for Austin Rover.

However, the report stresses that European car makers are aware of their shortcomings and are making significant improvements in quality, partly through the increased use of robots and other automatic machinery, as well as adopting more consistent quality control systems.

MIRU believes Japanese quality control methods can successfully be transferred to overseas operations – provided the operation is started from scratch – and quotes the Nissan plant in Smyrna, Tennessee, as an example.

It says the implications of the start of production in Western Europe by the Japanese cannot be overestimated.

It says that for the time being the specialist car producers in Europe are probably relatively safe from the Japanese threat but "for the European volume producers, especially those outside the protected markets of Italy, Spain and France, the picture is much bleaker.

"Only certain Volkswagen models come close to the Japanese in terms of quality and reliability, although on the whole, European volume-produced cars are still slightly ahead of most of their Japanese competitors as far as handling and driveability are concerned.

The higher level of education of the Japanese worker and his motivation plays a significant role in the success of the industry but the report points to the dedication of the mainly American Smyrna workforce which is "producing cars to at least as high quality standards as its Japanese counterpart."

"Quality and the Japanese Motor Industry" £95 or $150 from MIRU, University of East Anglia, Norwich, NR4 7TJ.

BP Oil deal raises wages by up to 35%

BY PHILIP BASSETT, LABOUR EDITOR

BP OIL has struck a major new productivity deal with its petrol tanker drivers which involves 145 redundancies, introduces new working practices, cuts hours to 37½ per week and gives total basic pay increases for some employees of up to 35 per cent.

But the agreement is being opposed by the company's union leaders, even though it has been accepted by the membership in a 2 to 1 ballot vote and been implemented.

The deal, covering about 750 oil tanker drivers and related vehicle mainteinance staff, is clearly well above the current going range for pay increases of 4 per cent to 6 per cent, but indicates that high agreements are still being reached by some negotiators where productivity changes are involved.

BP, which has not sought to give the deal any public attention, insists that it is self-financing, and says it is necessary for the company to be as efficient as the best in the industry.

The deal, which is recorded in a forthcoming issue of Industrial Relations Review and Report, the journal of the Industrial Relations Services research company, is in addition to a 9 per cent two-year pay deal which runs to November this year.

The agreement, which has been under negotiation with the Transport and General Workers' Union since September last year, contains a number of important provisions:

● Redundancy. BP says that the whole cost of the deal will be funded from savings arising from voluntary redundancies – 115 among drivers and 40 among related staff.

● Pay. The deal improves weekly pensionable productivity payments by £52 for Class 1 drivers.

● Hours. Standard weekly hours are reduced under the deal from 40 to 37.5. But it also abolishes guarented overtime, and changes overtime premiums

Birmingham challenges London cab monopoly

BY ARTHUR SMITH, MIDLANDS CORRESPONDENT

METRO Cammell Weymann, the Birmingham-based coach builder, is to launch a London-style black taxi cab later this year aimed at breaking the longstanding monopoly supply held by London Taxi International, a subsidiary of Manganese Bronze Holdings.

Manganese Bronze has just rejected a £6.5m cash bid for the subsidiary – embracing the Carbodies factory at Coventry, and Mann and Overton, the dominant distributor – from Ubright, a consortium of institutional and private investors.

Ubright, with a 40 per cent US interest and advised by Bankers Trust, was recommending a new injection of cash and management to improve models and expand markets both in the UK and overseas, particularly in the US.

The consortium insists it will not improve its offer, but maintain quick action is necessary to head off the challenge from Metro Cammell as the UK market, of around 2,000 black cabs a year, may not be sufficient to sustain two suppliers.

Metro Cammell Weymann, a subsidiary of the Laird Group, must have considered a bid for London Taxi as the way to enter what it considered to be a potentially profitable market. Instead, the company opted to design and build a completely new model.

The "Metrocab", with a glass fibre body, has already undergone extensive trials

BT dominates market for big exchanges

By David Thomas

BRITISH Telecom now dominates the market for large private exchanges, a sector which BT entered only three years ago. This is further evidence of BT's aggressive response to the liberalisation of telecommunications, according to a new study by MZA, a specialist marketing consultancy.

MZA says that BT has moved strongly into the market for exchanges with more than 100 extensions, where a monopoly never existed, because liberalisation posed a threat to its hold on the market for smaller exchanges.

The UK Telephone Attachment Market to 1988. MZA, 20 Daniel Street, Bath, BA2 6ND, £3,450.

Profit-sharing schemes 'aid share performance'

BY OUR LABOUR EDITOR

PROFIT-SHARING schemes significantly improve the share performance of companies that feature them, according to a new academic study of the operation of employee share ownership schemes in the UK.

The study, by two London School of Economics academics, is likely to be drawn upon by proponents of profit-sharing as evidence of the idea's success. It comes as interest in profit-sharing is sharpening, and follows publication last week of the Government's Green Paper (discussion document) on the issue in which Mr Nigel Lawson, Chancellor of the Exchequer, sought to extend in practice the Government's belief in wider share ownership.

The LSE study, by Mr Ray Richardson, reader in industrial relations, and Mr Aaron Nejad, a research student, is an examination of profit-sharing schemes introduced in the main since the 1978 Finance Act.

The authors' paper, published in the latest issue of the British Journal of Industrial Relations, uses Inland Revenue information to note 1,067 schemes of various forms by last March, with a further 916 under consideration.

But the study examines the principle central to the post-1978 schemes, and the new proposals announced in detail last week in the Green Paper: that share ownership will energise and involve employees, and so lead to an improvement in company performance.

In finding that the introduction of profit-sharing schemes has a marked effect on company performance, the two authors reject as a measurement examining company profitability, since it is difficult reliably to attribute any change in profit to one particular element in a company's operations.

Instead, the authors use, as an index of the effect of profit-sharing movements in share prices, comparisons of share price movements of companies that introduced profit-sharing schemes with a control group of companies with no such arrangements.

The study, a pilot of a larger project, looks at 41 companies in the multiple-stores sector – chosen because it has companies with and without schemes, is not strongly affected by changes in the exchange rate, is relatively labour-intensive and in the main has no especially aggressive trade unions.

BJIR, Vol XXIV No 2, July 1986. BJIR, Basil Blackwell Ltd, 108, Cowley Road, Oxford OX4 1JF. By subscription.

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MANAGEMENT

EDITED BY CHRISTOPHER LORENZ

The guru factor

A rarity in his own land

Carla Rapoport talks to Kenichi Ohmae, Japan's only successful pundit, who sees the world as a triad of industrial power

KENICHI OHMAE is a personality in a land where outspoken personalities are rare. And while most Japanese are polite and anxious not to offend, Ohmae is blunt and often downright rude.

When you meet him, he does not offer a visiting card—an almost unspeakable sin in Tokyo. He folds his arms and glares, as if to dare you to state an opinion about Japan. No matter what you say, he'll try to make you squirm. There is no doubt however, that the man is very clever. He knows Japanese industry like the back of a chopstick. Further, he is Japan's only successful management guru.

Head of the Tokyo office of McKinsey & Co, the US consultancy, Ohmae has made a career out of contradicting some of the more outlandish myths that foreigners have about Japan. In the summer of 1982, when he was gaining an international following, his speeches and articles had titles like: *Beyond the Myths*, *Nine Economic Myths of Japan* and *Myths and Misunderstanding*. Most recently, he has been on his myth soapbox again, claiming that there is no trade imbalance between the US and Japan because goods produced and sold by US companies in Japan are not included in the figures.

His most recent book in English, *Triad Power*, is now considered a must for top managers world-wide. In it, he argues that corporations everywhere must become insiders in the so-called Triad, that is Europe, Japan and the US. This can be achieved by applying Ohmae's three Cs: commitment, creativity and competitiveness. Crucial to achieving the last two Cs, he says, is picking the right joint venture partner in the foreign market.

Curiously, not many Japanese executives have read *Triad Power*, or *Mind of a Strategist*, which is Ohmae's other major book published in English. With *Triad Power*, his Japanese publisher printed 50,000 copies, but only 30,000 were sold. Iacocca's autobiography, by contrast, has sold 570,000 copies in Japan, and "In Search of Excellence" 400,000.

This does not mean that Ohmae is not popular at home—he is. His current book, in Japanese only, is an exhortation to his fellow countrymen to see Japan as the world sees it, warts and all. That book has sold 200,000 copies since it was published last December. But most books on Japanese management by Japanese do not sell well at home. A call to a bookseller about best-selling books in this category produced: *The Theory of Enterprise Development*, 15,000 copies; and *Theory of Management Control*, 4,000 copies. Both volumes were written by prominent professors.

Why hasn't Japan cornered the market in management gurus? Ohmae himself is something of a cross-breed—he received his Ph.D. in nuclear physics from M.I.T. in Boston. And now, of course, he works for a foreign company. He warms to this question with enthusiasm. "Japan has contributed to the world the knowledge of how to run a company by products. This has been done by insightful entrepreneurs, like the founders of Matsushita and YKK. But none of these men has taken the time to say what they were doing. We are not a good country for recording, or documenting," he says.

Ohmae says the imbalance is due to Japan's educational system. Most American management gurus emerge from the academic environment, directly or via a career in consultancy. But Japanese universities do not lavish a lot of funds on the "science" of business management. "It's the incompetence of our academics." This lack of competence, however, does not mean that Japan does not have a management theory to give to the world. It does. So far, he says, it hasn't been adequately explained by the Western management gurus.

"They come here and write about quality circles and company songs. Those are not interesting. It is the vision of the founders of our best companies. Originality is *in* the company. These people look at a Japanese company and see that they raise the flag every morning. We don't do that, he says, so that must be it. This kind of contemporary Marco Polo looks at the differences. But they don't know business because they've never been an insider," he says.

He criticises "Marco Polo" analysts for failing to live in the country they are writing about. "It's a lot more difficult to write when you live here and the longer you live here, the harder it is to write. But the stories which are exportable are those of the men of companies like Honda, YKK, and Matsushita. And you can't classify Honda as Japanese—it's unique."

Holy grail

If you examine each of these companies, he says, you will find different themes. YKK, the fastener company, encourages its overseas groups to act independently, even to the point of competing with each other. At Yamaha, the corporate philosophy has been to sell leisure pursuits to the Japanese and the rest of the world. In all these stories, he claims, the founder is rarely worried about the traditional holy grail of *Western management science*, return on investment.

Such people, he says, are "mission-oriented" or have a "visionary approach." An approach of this kind does not work on a three or five year view. It also would not be terribly popular with American shareholders, he says, who are looking for quicker returns than an approach can provide. This, he says, best sums up the gulf between Japanese and American companies.

"I think we are coming to the point where equity, which originally meant ownership, is at odds with the company itself. Even the best performers in the world must go through their ups and downs. Twenty years of ups and you are in trouble. If owners are not interested in the long-term, you find it extremely difficult to manoeuvre." He even goes so far as to say the American emphasis on return on investment at expense of the long view put up a challenge to the western version of capitalism.

"I don't think American companies are seriously interested in their home. Without taking their land seriously, this whole trade imbalance debate is an exercise in hegemony." He then moves into his theory about the myth of the trade imbalance, because all the McDonalds hamburgers and Coca-Cola consumed by the Japanese are not counted in the trade figures. What he leaves out is the employment imbalance.

According to Ohmae's statistics, Japanese companies' investment in America to date is about $5bn, compared with some $1.6bn invested by Americans in Japan. American companies' combined sales in Japan of goods they make there are around $44bn a year, compared with a local output of around $13bn a year for Japanese companies in the US. But most of the Japanese investments overseas are wholly-owned ventures, where profits can be repatriated or ploughed back into new plant according to the company's wish. In Japan, the American ownership level is lower. Further, Americans provide jobs for 143,000 Japanese workers, while the Japanese employ only 71,000 Americans.

Ohmae concedes the point on employment and simply prescribes: "We should set a target of Japanese companies' employment in the US and the trade debate is over. It's do-able and it is a fair demand, but it has to be phased."

Another fundamental Ohmae prescription is joint ventures for companies aiming to break into foreign markets. "No company — Japanese, US, European — can survive independently," he says. Collaboration and joint ventures are imperative, for the long-term, not temporary stop-gaps.

Track record

Most foreigners would complain bitterly that most of their joint ventures in Japan have flopped, and many would argue that the track record of such ventures in the West is also poor. Ohmae says that the success rate is not so bad, pulling out one example after another. Even so, one of his *Triad Power* examples, the Barbie doll by Mattel, is now the subject of a bitter Barbie doll war between Mattel and its erstwhile licensee, Takara.

Under pressure, Ohmae admits that many western partners do come to their joint ventures with Japanese companies from a position of weakness. Still, he maintains that need not stymie their growth. "The weaker partner seldom realises what it can achieve. Nothing stands in its way but itself."

Is he, as some critics have alleged, an apologist for Japan, which after all remains one of the most difficult foreign markets for American and European firms? Considering his own strong criticisms of Japan, the answer must be no. "I would have been assassinated five years ago for making some of the statements in my latest book," he says, laughing. Ohmae is not afraid to criticise Japan in the same harsh terms that he uses on foreign firms.

But the man is not infallible. In the mountain of speeches and articles he has penned over the last few years, there is one called *Beyond the Myths*. In it, he writes: "Myth: Japan is booming and expanding. Reality: There is an enormous sense of unease and uncertainty in Japan . . . the nation's GNP growth is near zero. Attempts to initiate overseas operations are meeting numerous setbacks."

That was written in July 1982. Japan's export boom since that time is now history. No doubt, Ohmae is unperturbed by his misreading of events. Self-confidence is not something he lacks.

Previous articles in this series appeared on June 30, July 2, 7 and 14.

The ups and downs of profit-sharing

Paul Cheeseright reports on Agfa-Gevaert

EARNINGS of Belgian employees of Agfa-Gevaert are likely to fall this year—as a consequence of the photographic, films and office equipment company's profit sharing scheme. The scheme, written into the articles of the company, is a modified version of British Government plans for linking earnings to profits.

Profit-sharing arrangements at the photographic, films and office equipment company apply to all employees who have been with the company for a year. From the 1985 fiscal year onwards they are a permanent part of the company earnings structure. If profits fall, then total earnings of individual employees will fall as well.

That could be the case this year. In 1985, net profits for the Belgian part of the Agfa-Gevaert group were BFr 6.4bn (£9.4m). The management has written to employees explaining that the fall of the dollar will mean a reduction in the company's revenues.

So the total earnings of Agfa-Gevaert employees will reflect that. The difference between their likely experience and what Nigel Lawson, the British Chancellor of the Exchequer, has suggested is the size of the movement in earnings.

Lawson has floated the idea that 20 per cent of an employee's earnings should be related to the performance of the company and attract special tax relief. He later scaled it down to a proposal that 5 per cent of earnings linked to profits could take tax relief up to £12 a month.

In the Agfa-Gevaert case there is a level below which earnings cannot fall, because the profit-sharing comes on top of the basic wage. The company is committed to paying employees 5 per cent of the net profits but it has not suggested employees should share any losses.

Agfa-Gevaert has created 50,000 profit-sharing certificates, each one of which is an entitlement to one-millionth of the net profits. There are 8,000 employees and each has received a minimum of four certificates. Of the 18,000 left, most have been distributed to employees deemed by the management to be worthy of extra reward.

For the 1985 year each employee thus received a minimum of four-millionths of the profits—BFr 25,600. From that they lost 25 per cent in withholding tax, leaving a net BFr 19,200. For an employee without management responsibilities and without any extra certificates for merit, this was the equivalent of 5 per cent of average basic earnings.

At this stage, though, the Agfa-Gevaert scheme parts company with Lawson's ideas. In Belgium there is, so far at any rate, no question of special tax concessions on profit-sharing arrangements.

Certainly the withholding tax payments can be won back from the tax authorities by an individual if it can be set off against debt interest payments on, say, a mortgage. The withholding tax, though, is applied to all investment income in Belgium.

For the company the tax position is broadly neutral. The tax authorities treat company payments on profit-sharing as dividends. This means that the company pays as tax 45 per cent of the amount available and the employee receives the 55 per cent balance—the amount due under the company commitment.

Aside from these mechanics, the Agfa-Gevaert scheme and the Lawson suggestions converge on the question of aims. The point of profit-sharing is to forge an identity of interests.

"Profit-sharing gives the employee a feeling of well-being with the company—that is the most important part of it," says Andre Leysen, the Agfa-Gevaert president. "The scheme has been in my head for years."

The question though is whether 1985's 5 per cent portion of earnings linked to profits is large enough to induce the feeling. Leysen would like to go further but doubts the immediate feasibility. What would be totally unacceptable in Belgium would be any scheme that increases profit-sharing but is offset by a fall in the basic wage.

The scheme itself is now accepted by Agfa-Gavaert's employees and there is little internal discussion. Generally, they welcomed the idea in the first place, although union leaders had sharp reservations. Little of those reservations is heard nowadays and there is some evidence that the Christian Democrat unions, as opposed to their Socialist counterparts, are more open to profit-sharing schemes than in the past.

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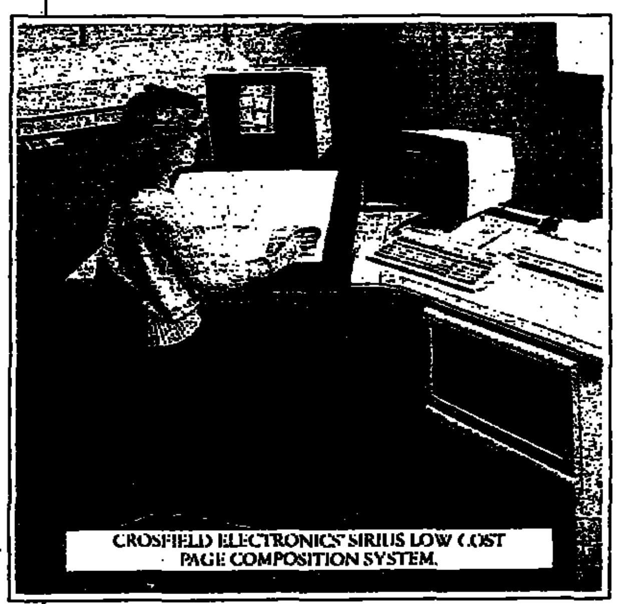
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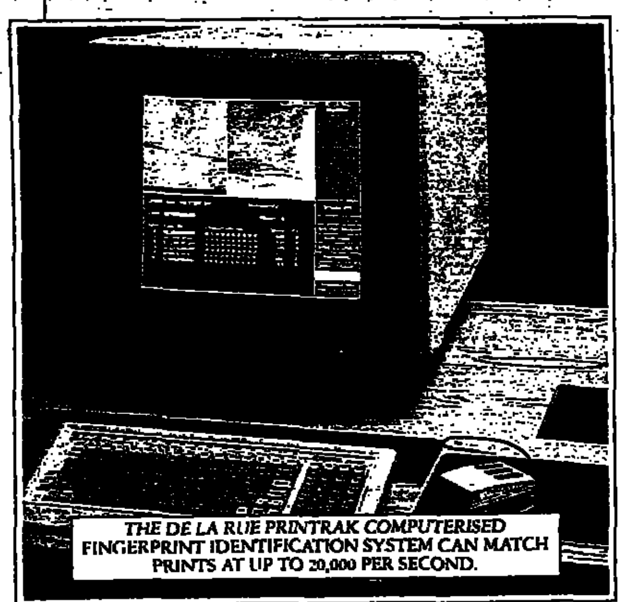
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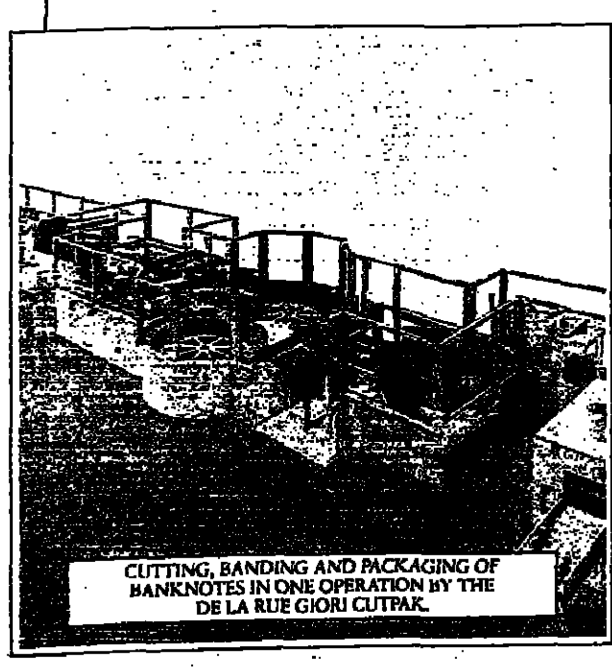
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Trading Margin	7.8%	14.0%
Return on Shareholders' Funds	21.6%	32.5%
Earnings per Share	13.1p	84.4p
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Why the dairy stays empty

On Christmas Eve, the FT carried the story of how Andrew Murray had been frustrated by dairy industry bureaucracy from setting up a small cheddar cheese factory in Wales. Since then, his woes have deepened . . .

I WAS much impressed with the power of the press. I had spent nearly a year trying to persuade the Welsh Development Agency to back my revolutionary idea of making cheese on a dairy farm. Three requests for loans and investment had been turned down. All for "good commercial reasons," I had bene assured.

Hey presto! On December 27, a charming man arrived on the farm, introduced himself as from the WDA and intimated that I would have its full support after all. It seemed strange that a subsidised loan of £70,000 and an investment of £100,000 depended on an FT editor's choice of a particular article to entertain his readers over the Christmas holidays.

Perhaps the dream was to become reality. No longer would I have to reflect melancholily on memories of France, where you go into a grocer's shop to be greeted by rows of delicious different and unknown cheeses. In Britain, most grocer's shops carry some vacuum packed "plastic" cheese, labelled Cheddar and some stale pieces of imported continental cheese if you are lucky. In France, if you travel about the countryside, you will notice that wherever there is any number of cows, a small dairy will be turning out cheese of the locality.

It was this that had inspired me with the idea of making traditional round-rinded cheddar cheese on my dairy farm. I built a handsome dairy and cool store, scoured the country for cheese equipment, sought out cheesemakers in Wales and determined to fight the six statutory bodies who, directly or indirectly, control cheese making—I have spent £120,000.

In our parish there are probably about 2,000 cows, producing about 7,000 gallons of milk daily throughout the year. I needed to buy about 2,000 gallons daily from my own and my neighbours' cows at the market price.

At the moment, all the milk is turned into butter and most of the butter is paid for by taxpayers to go into butter mountains. It seemed to me eminently sensible that some of the milk should instead be turned into a kind of cheese for which there might be some real demand.

The money for the project remains verbally on offer from the WDA. But there is a snag: since I started planning my dairy, it seems that the rules of the game have changed.

I have been told by the Milk Marketing Board, a hopelessly centralised monopoly run from the London suburbs, that it will not be allowed to sell me milk, either my own or other people's, for about four months of the year and that, during the rest of the year, I shall be limited to using my own milk.

I thought I was going to be able to set up my dairy under a system—initiated by the board —known as the Farmhouse Cheesemaking Scheme. But now the situation has changed. It seems that the Brussels authorities have decreed that the scheme in question broke EEC rules and so would have to go.

Under the new regime, the MMB can and will demand for a substantial period of the year that my milk is sold to it to be turned into intervention butter. As a result, I will be stopped from producing something that people will want from my milk, and instead, the MMB will turn it into butter that people won't want.

And the upshot is that the only way that I can get access to the quantity of milk necessary for my scheme is by importing it—say, from Ireland.

"Everybody knows the world of agriculture is a mess, but this is the most ridiculous thing I have ever heard," was the reaction from the Irish official with whom I opened negotiations for buying tankers of Irish milk.

The reaction of a neighbour to whom I talked about my plan was even more encouraging. "They'll burn you down," he said. "The farmers' groups are pretty desperate. The banks are foreclosing on their loans and the land price is plummeting because they are forbidden by the quota system to produce more milk. If you come along and import milk, there will be trouble!"

When I explained my cheese troubles to lawyers, their eyes glazed over and they looked at me as if I were a complete nutter. "You mean that the Milk Board has been controlling cheese dairies by a contract that is illegal under EEC restraint of trade law for 15 years and now that this has been ended through the intervention of the EEC commissioner, all small cheddar cheese dairies are going to close down?" asked one.

"Yes," I told him. "You can buy bulk cheddar for about £1,600 a tonne wholesale. Traditional round cheddar, much in demand, will cost about £3,000 a tonne. Demand is greater than supply due to the MMB in the past stopping people who want to start making cheese and restraining people lucky enough to inherit a cheese dairy from expanding."

"And now the MMB is scrapping this contract, you will not be able to make cheese at all?" At this moment I take a deep breath and begin my now familiar lecture on the mad cheese world.

"In Britain we do not have enough butter machinery to turn all the surplus milk into butter during periods of high production. The people who buy most of the milk in Britain, the member companies of the Dairy Trade Federation, have been able to squeeze the MMB by saying: 'You expect us to buy an unknown amount of milk for an uncertain period. We will help you out, but you cannot expect us to pay much for the milk. We will turn your surplus milk into cheddar and sell it. You can have access to our books and we will pay you what the cheese fetches on the market, minus our profit and costs.'

"The unfortunate Board is forced to agree to the arrangement. The even more unfortunate buyer of British cheddar is faced with a cheese made by people who have no interest in raising the price, and therefore the quality, of their product. Under the old illegal arrangement the traditional cheddar maker benefited from the low price and was able to sell his superior product at a better price than the DTF. His disadvantage was that he was rationed by the Milk Board, through which he was forced to sell his product.

"Now, under the new arrangements, the Milk Board has written to farm cheese makers saying that they will not be allocated any milk, even their own milk, to make cheddar during periods when there is enough butter machinery to turn Britain's milk into intervention butter. It means the death of traditional makers as they will have to close down and lay off men for an uncertain period every year. As a craft industry, we need continuous and reliable supplies of milk to survive."

The only bright spot on the horizon was the appearance, in the correspondence from the MMB of a mysterious "arbitrator," Mr John Silkin, the ex-Minister for Agriculture. On his decision apparently rested our fate. But what was he deciding? Repeated calls to the MMB, the DTF and the Ministry of Agriculture failed to turn up either the address, the terms or the precise subject of the arbitration. It was, I was told, private: nothing to do with me.

I thought that if I, and other cheese makers were to tell Mr Silkin that we were prepared to pay more for milk during periods of low production he might possibly see the logic in selling us milk to turn into something that people wanted rather than to make it into EEC butter. He sent me a note saying that he was not instructed to "hear" me. My lawyers tell me that this is possibly illegal but to challenge it would be potentially costly.

I am not sure I could bear the tension or the cost, just in order to make cheese in West Wales. So it looks as though my smart cheese dairy will remain unused.

Difficult questions for the researchers

COUNT DOWN DAYS TO BIG BANG **98**

BY BARRY RILEY

IN 1973 the New York brokerage firm of H. C. Wainwright, was voted Institutional Investor research house of the year. Commissions were directed to the firm from 900 institutions, and it was extremely profitable, with a return of well over 100 per cent on partners' capital.

But within five years, in February 1978, Wainwright shut its doors and disappeared without trace. The key intermediate date was May Day 1975, when the New York Stock Exchange brought in negotiated commissions.

Thoughts of the decline and fall of Wainwright and other New York specialists can send shivers down the spines of research directors in London broking firms as they prepare for the City's own deregulation of commissions on October 27.

Not that research as a whole is dead on Wall Street. In a slightly different form it still flourishes. Top analysts command superstar remuneration levels, not least for their publicity value. But it tends to be part of a broader package of services offered by the big securities firms.

And a little more ominously, it is much more evident in the commission-paying environment of the NYSE than in the net price circumstances of the "over the counter" exchange Nasdaq. London's SEAQ system, remember, is modelled on the latter.

To begin with, however, it is clear that most London institutions will be willing to pay commissions to remunerate research after Big Bang. Brokers report that they are getting near-unanimous feedback on this, and even the more hawkish clients, who a few months ago were trying to insist on dealing directly only with market makers, are partially backtracking.

It is nothing new for a substantial proportion of commissions to be specifically directed for research. According to a recent report on the London market by the US consultants Greenwich Associates the proportion pre-Big Bang is 31 per cent, a figure which some leading brokers feel is low.

Important new factors come into play after October 27, however. Commission rates overall will drop; institutions will be prompted to undertake a complete reassessment of their relationships with individual broking firms; and they will no longer be forced to pay the same commission, willy-nilly, on all business.

One consequence may be that, although good research will continue to be supported, the indifferent output which has multiplied under London's fixed commission umbrella will be vulnerable.

Institutions will also have the option of doing more research in-house. Prudential Assurance, for instance, already has a team of analysts. But it is unlikely that the institutions will want to duplicate the company and sector research that is carried out by brokers.

They are more likely to concentrate on strategy at one end of the scale and small companies at the other, areas less well covered by stockbroking analysts. In any case, much so-called institutional research consists only of monitoring the output of brokers.

At a practical level, companies could not cope with analysts from dozens of different institutions. Already, they may be besieged by 20 or 30 brokers' analysts, and a reduction in this number to 10 or 15 will not displease them.

Curiously, however, companies have become keener on co-operating with City analysts. Even traditionally aloof companies like GEC have started cultivating the researchers.

This may be a temporary phenomenon related to the takeover boom. Companies have seen what happened to Distillers, which spurned the City, while GEC no doubt wants the analysts on its side if it gets the chance to bid for Plessey. But once extended, facilities for analysts cannot easily be withdrawn again without damage to credibility.

Research to support the sales side of a broking firm has become very common in London over the past 20 years and may now come under a degree of pressure, but there are other aspects to investment research too. These will become more evident in the new, integrated firms.

An interesting example is Robert Fleming, which set up in UK equities outside the Stock Exchange in 1984 and adds a fourth sector, foods, today. When it joins the Stock Exchange on October 27 it will have had more than two years' experience of operating a net price service in dual capacity in domestic equities.

To begin with, Fleming tried to operate a stand-alone jobbing service, but it soon decided that an increasing element of positioning in market making required a research input. It now operates in a fully integrated way, with traders, salesmen and analysts all in the same office and expected to communicate with each other.

And there can be still another dimension. Already several broking firms with a big corporate client list use research to support corporate finance, for example coming up with ideas for deals, and providing input for new issues.

The obvious attraction for an integrated firm is that by multiplying the sources of revenue it can justify a bigger and better research operation, with the potential of providing a higher quality service to all its clients—whether agency, execution-only or corporate.

However, it will not prove easy to control this multi-level service to the satisfaction of all concerned. One question that it raises is whether the traders should be tipped off first about price-sensitive research ideas. Another is whether it is satisfactory from the point of view of investment clients that analysts should disappear behind Chinese walls at vital moments because they are party to confidential information.

Then there is the question of the independence of judgment of the "shop" analyst, who in balancing the interests of investment and corporate clients may be nervous of repeating the recent experience of brokers Greenwell. The firm's critical research report on BOC lost it that company as a client.

The pure approach might simply be to dedicate research only to agency clients, thus avoiding all conflicts. Unfortunately, the indications from the US are that such a strategy is unlikely to work in the absence of a fixed commissions structure.

Wainwright closed because it had failed to devote skills and resources to diversifying its appeal. With the benefit of hindsight, London's firms are unlikely to make the same mistake. Which is not to say that all will avoid the same fate.

INTERNATIONAL APPOINTMENTS

Citicorp fills post left by defections to E. F. Hutton

BY WILLIAM HALL IN NEW YORK

CITICORP, the New York-based bank holding group, has appointed Mr Alan Macdonald, aged 43, head of its North American Investment Bank, *following the resignation of* two senior executives who left last week to join E. F. Hutton, the Wall Street investment house.

Mr Macdonald replaces Mr Mark F. Kessnich, aged 47, who left to join E. F. Hutton along with his deputy, Mr Paul R. Derosa, 45. Their departure is the latest in a string of defections from Citicorp's worldwide investment banking operations.

Citicorp, the biggest commercial banking group in the world, has been amongst the most aggressive banks in expanding into the investment banking field as the barriers between commercial banks and investment banks crumble. However, the group has found it difficult mixing its commercial banking and investment banking professionals and there have been reports of friction between the two groups.

Mr Kessnich, who will be *responsible for managing* Hutton's global fixed income trading and sales activities and developing the firm's global capital markets strategy, will become a member of Hutton's management committee and will report directly to Mr Robert Ritterreiser, president of E. F. Hutton. Mr Derosa, a vice president of Citicorp, is joining Hutton as a senior vice president and member of the capital markets committee.

Mr Kessnich joined Citibank, Citicorp's commercial bank, in 1984, and has held several jobs in the bank's trading operations. Mr Derosa joined Citicorp in 1975 as vice president and chief economist and in 1983 was named head of positioning and arbitrage.

Mr Macdonald's appointment to replace Mr Kessnich underlines Citicorp's determination to strengthen its investment banking team. Mr Theobald says that Mr Kessnich "will be missed, but we have many other good people who have built Citicorp Investment Bank to what it is today."

Mr Paul Collins, the senior Citicorp corporate officer for the US and a Citicorp director, will assume Mr Macdonald's responsibilities for the information business. He is a former head of the investment bank.

Citicorp says that its investment side is one of the largest in the world. Last year it earned $425m, and it employs over 7,000 in 38 countries. Mr Macdonald's activities will include all the investment bank's securities, money market and foreign exchange operations in the US. This year, these activities are expected to account for about 20 per cent of the investment bank's earnings.

Head for Coca-Cola bottling venture

By our New York Staff

MR BRIAN DYSON, head of Coca Cola's domestic soft drinks operations, has been named chief executive of the group's new bottling company, which is in the process of being formed.

Coca-Cola, the world's biggest soft drinks company, which is facing fierce competition from Pepsico in its home market, is planning to combine two recently purchased independent bottling companies with its own bottling properties. The new company, which has not yet been named, will bottle about 30 per cent of Coca-Cola's domestic output and will strengthen the group's ability to market its product, which has been losing market share to Pepsico.

Mr Edwin Mellett, executive vice president of Coca-Cola USA, is to succeed Mr Dyson as president of that company on August 1.

Coca-Cola is still examining the ownership structure of its new bottling operation which will have annual sales of around US$3bn, and will operate in 18 states plus Canada. Coca-Cola is known to want Mr Dyson's new company to be a free-standing affiliate which would be quoted on the stock market and have access to the capital markets. This would enable Coca-Cola to strengthen its own balance sheet which has become more highly geared recently because of the spate of acquisitions of bottling companies.

Switch in senior post at Time Inc

BY OUR NEW YORK STAFF

TIME, the large US publishing, magazine and cable television group, has appointed Mr Nicholas J. Nicholas, formerly in charge of video operations, to be its new president and chief operating officer, from September 1.

Mr Richard Munro, president until now, will become chairman of the board and will remain chief executive. The present chairman, Mr Ralph Davidson, is to become chairman of the executive committee of the board. All the changes become effective on September 1.

The appointment of Mr Nicholas, 46, marks the first occasion on which a top executive has been appointed at Time whose career has not lain in the magazine side of the company. He joined Time in 1964 but has worked mainly in the group's cable television and video subsidiaries, which include Manhattan Cable Television and Home Box Office. He will remain responsible for this side of the company's activities.

Mr Nicholas is now viewed as the most likely eventual successor to Mr Munro, 55, who has been president and chief executive since October 1980.

Brierley role at Bank of New Zealand

BY DAI HAYWARD IN WELLINGTON

THE APPOINTMENT of Mr Ron Brierley, New Zealand's most successful entrepreneur and best known internationally of all New Zealand businessmen, *to the post of deputy* chairman of the state-owned *Bank of New Zealand (BNZ)*, has created widespread interest and comment.

Sir Lewis Ross, the chairman of the bank, expressed some reservations about the appointment and that of two other new directors, Mr Glen Bayliss, the well known economist, and Mr Frank Pearson, *the investment* analyst, on the grounds of possible conflict of interest. Both Mr David Lange, the Prime Minister and Mr Roger Douglas, the Finance Minister, have brushed these reservations aside.

Mr Bayliss is a director of the Government Life Insurance Company. Last August, BNZ launched a wholly owned life insurance company, BNZ Life Insurance. Since his appointment to BNZ, Mr Bayliss has said he will relinquish other conflicting interests.

Mr Brierley was first *appointed a director of BNZ* ten months ago. His elevation to deputy chairman came only one week after the Government decided to sell one-third of the bank to the public. The aim is to raise NZ$150m (US$80m) to *expand the capital base of BNZ*.

It is reported that Mr Brierley's influence and arguments were a significant factor in the Government's decision to expand the bank's capital by selling shares instead of injecting more Government finance.

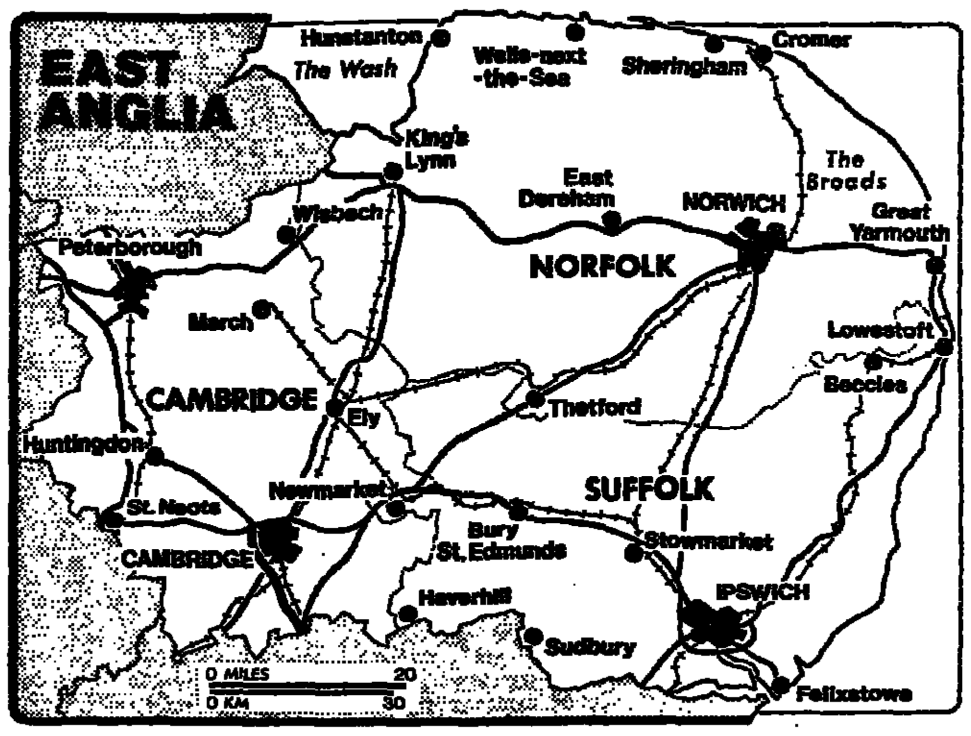
Opponents of the proposal, *especially those in the Labour* Party, believe the sale is a reversal of traditional Labour Party philosophy. The shares will carry no voting rights. Mr Douglas has said this means the Government will retain full control of the bank.

Mr Brierley replaces as deputy chairman, *Sir George Chapman*, one-time president of the National Party, who was appointed by the former Prime Minister, Sir Robert Muldoon.

His appointment, and that of the other new directors, comes at a time when BNZ is gearing up to meet the challenge of the *newly deregulated banking* scene in New Zealand and also the expected arrival of new banks later this year.

The three counties of East Anglia are among the most prosperous in the UK, but there are fears for the future of agriculture

Wealth across the spectrum



DRIVING through the undulating countryside of East Anglia it is not difficult to agree with Mr Ronald Brown, Cambridgeshire's director of planning, that this is one of the most economically advanced parts of Britain.

The growing crops in the fields, the tourists in Cambridge and Ely, the small companies around Huntingdon and the oil rigs visible offshore from Lowestoft all point to considerable economic wealth across a wide spectrum.

After the south-east of England, the three counties that comprise East Anglia are the most prosperous part of the UK and probably the fastest growing.

Unemployment is lower and a strong service sector has emerged to offset declining manufacturing. Rail and road improvements have improved the movement of goods while the ports are encouragingly busy and investing strongly.

And the "Cambridge Phenomenon" has produced one of the fastest growing high-technology centres in Europe.

This is also one of the most efficient agricultural economies in the world, with much of the best-quality land in Britain being farmed in a way that produces the maximum returns.

Yet just beneath the surface there are fears, in particular about the future of agriculture in the light of the EEC agricultural politics of Brussels. East Anglia is one of the main beneficiaries within Britain of the EEC's Common Agricultural Policy, and there is growing concern that this policy is about to be changed in a way detrimental to Norfolk, Suffolk and Cambridgeshire.

The CAP has sustained much of the prosperity of the three counties and in places assisted the creation of great wealth. The "cereal barons" have grown rich on the surpluses that stock the granaries of the area.

But the way in which the Brussels bureaucrats have flexed their muscles over milk quotas, and the pressure put on them by politicians, environmentalists and Third World groups to do something about the grain mountains has led to questions about how much longer the system which has created East Anglian wealth can continue.

In theory any change in policy should not affect the area seriously, since agriculture accounts for only about 5 per cent of its wealth. In practice cereal quotas would be a severe blow, affecting not only the farmer but also the associated industrial and service industries which have grown in recent years.

These fears should not be exaggerated. Agriculture, with or without cereal quotas, will continue to be prosperous. And East Anglia does have a very solid base, underpinned in the south by London commuters.

The opening of the M11 increased commuting and with parts of the railway network being electrified — from Harwich this year and from Norwich, Cambridge and Peterborough next year—this trend will continue.

Many planners see dangers in the pressure from commuters on scarce resources, particularly housing. The local authorities are preparing for a battle with developers to retain the charm and the character of villages and smaller towns.

Much of the area's economic success is because of low employment in traditional manufacturing industry

These pressures are already being felt acutely around Cambridge, St Neots and Huntingdon. It will continue in the south because of the success of the development of high-technology industry around Cambridge.

The "Cambridge Phenomenon" as it has been christened, is the development of a high-technology culture that equals anything in Britain—the equivalent of California's silicon valley in its early days.

Most of the companies are small and allied to Cambridge's excellent university facilities. They are unlikely to be allowed to grow very big within the immediate locality, because both city and county are looking for them to be seed-bed, research-based concerns which will find another site once manufacturing becomes important.

Cambridge is unlikely, therefore, to turn into a 21st-century industrial heartland but it will be an important starting point for many growth companies.

The success of the "Cambridge Phenomenon" has tended to obscure the decline of more traditional manufacturing. This sector slipped by 13 per cent in output terms between 1979 and 1983, with particularly nasty bumps being felt by manufacturing in Norwich and Ipswich and some of the small towns in Norfolk.

This decline has led to a sharp structural change in employment patterns. Although total employment is about 4 per cent higher than in 1977, the number of men in work fell by 3 per cent and the number of full-time workers, both men and women, by 0.6 per cent.

The only growth has come from jobs for women, especially part-time posts. The number of women in part-time work rose by a quarter between 1977 and the middle of last year — an expression of the "supermarket syndrome." This is a consequence of the rise in opportunities in service industries.

There has also been a big increase in major employers of women, such as insurance. Much of the area's good economic performance can be attributed, according to the East Anglian Consultative Committee, to the relatively low proportion of employment in traditional manufacturing industries.

The region is sensitive to these changes because its affluence is relatively recently achieved, again reflecting the influence of the EEC's agricultural policy. As recently as 1977 it languished in seventh place among the eight English regions in terms of gross domestic product per head. By 1983 is was second.

Whatever the sensitivities about economic trends, encouraging developments have underpinned the economy. Food processing has been brought closed to the producer — the farmer — especially in the north. It is now common for vegetables to be harvested, transported, cleaned and frozen or canned within hours rather than days.

An oil-supply industry has emerged around the two main ports, Lowestoft and Great Yarmouth, and there are signs of a spread of banking services emerging in Cambridge, Ipswich and Norwich. The last has been a leading insurance centre for many years based on the long-established Norwich Union, one of the leading companies in the country.

The A45 has been upgraded to dual-carriageway along much of its length from the A1 at St Neots the region is beginning to get a proper road infrastructure. Work on the part of Felixstowe started before these benefits. But the combination, along with other port developments, such as at King's Lynn, improves the region's claim to be the gateway to Europe—a gateway made wider by the airport in Norwich.

Essential improvements remain necessary on the roads, though. The M1-A1 link, for instance, will bring Felixstowe into the UK's motorway system. Work on this 46-mile scheme is expected to start within 12 months.

A number of by-passes are also awaiting their turn. But if the economic pull of the region is not to continue in a southerly direction it is imperative that the A11 is improved to dual-carriageway north of Cambridge.

The lack of priority accorded by the Government to upgrading the A11 is a source of much irritation in Norwich and Great Yarmouth. So is the lack of action on the northern east-west link, the A47, which joins Great Yarmouth with Norwich, King's Lynn, Peterborough and the A1.

Without improved road links there is a danger that Norwich could become the region's poor relation.

Norwich is aware it is under pressure from the growth of Cambridge and economic developments to the south such as the upgrading of Stansted airport outside the region.

If Norwich loses position there will be a knock-on effect on places such as Wisbech, Wells and Cromer. Unemployment is already high in these places and the opportunities to attract alternative industry are few.

Even tourism is no longer the succour it was. In parts of Norfolk, caravans account for up to 60 per cent of the available accommodation, making it extremely difficult to attract the higher-income holidaymaker or extend the season.

Cambridge, Ely, Newmarket and Aldeburgh have done well from the visitor but, with isolated exceptions, the area has increasingly catered for the day-tripper rather than the staying visitor.

The service sector in general will continue to be the mainstay of the economy, especially as planning applications for shopping developments remain at a very high level and office building continues on a substantial scale.

Any general improvement in the region's economy must depend on a pick-up in the national economy. What the area can do for itself is look seriously at the emerging north-south divide. It would be little short of a disaster if the southern part of the region were to develop substntially as the northern part stagnated.

This is a problem that can be tackled locally whatever happens to the state of the British economy.

Anthony Moreton
Regional Affairs Editor

Science Parks

First to do the double

HAVING pioneered the introduction of science parks in the UK, Cambridge is about to achieve another "first": so far it is the only university in Britain to sponsor two parks.

Tenders went out in May and work should start soon on an innovation centre costing between £1.5m and £2m and planned to open next June.

Technically, it is not Cambridge University itself which is sponsor of either the park or the centre. The Cambridge Science Park, now 11 years old, was developed by Trinity College and the innovation centre has emerged from its neighbour, St John's College.

By coincidence the neighbourly influence extends further: St John's innovation centre is situated just across the road from the entrance to the Cambridge Science Park.

The innovation centre, divided into "cells," should provide back-up facilities and allow small businesses to start up

The innovation centre will be quite different from the science park. It will be nearer in concept and design to the Warwick University science park or the University of Utah innovation centre in the US.

The idea for the centre was developed, quite independently, by Dr Chris Johnson, bursar of St John's, after a study tour of US science parks, and Dr Bill Bolton, fellow of Wolfson College and a member of the university's engineering department.

Dr Bolton had been concerned about the inability of undergraduates to find a way of turning good ideas into reality. Dr Johnson was looking for ways other than the normal property-development route of developing land the college owned near the centre of Cambridge.

His US visit was intended to see if the science park idea was feasible on the site. The two men met through a mutual friend and the innovation centre emerged.

The thinking behind the centre is threefold: to put up a building; to develop the ways in which academic members of the university can encourage and stimulate undergraduates with ideas, projects or processes that appear to be commercially viable; and to set up a structure to attract the necessary venture capital needed to back such ventures.

The first phase—the building—is now going ahead; the second, development of undergraduates' ideas, needs little stimulation since such ideas abound in Cambridge. But St John's admits that it still has to come to terms with the best way to back seed-corn ideas. Since the building will not be opened for at least another 12 months there is time to find solutions.

The idea is that the innovation centre, a building of some 25,000 sq ft divided into 30 to 40 "cells," should provide central back-up facilities such as secretarial help and allow one- or two-person concerns to get started.

After their ideas are developed it is expected that the young companies will move, as the production stage gets closer, across the road to the Cambridge Science Park or to another site.

Across the road the science park continues to grow with what its progenitors describe as "a missionary spirit."

It now has around 65 tenants ranging from Napp Laboratories, whose numbers are up to 320, to relatively small ones such as Data Analysis and Research, which has a staff of seven, or Synoptics with eight. The aptly named small concern Tadpole Technology, which specialises in designing high-performance hardware for the computer industry, has 23 employees.

Last year the fourth phase of development on the park began, the first three having been occupied, and work on it is gathering momentum.

In Norwich the University of East Anglia is reconsidering its science park, which has been in existence for about 18 months on the site of the old university campus and has four tenants.

This site was expected to be home for starter units and for those requiring some 5,000 to 10,000 sq ft, but the university is now looking at the possibility of developing elsewhere. One candidate is the Colney Lane area of the city, where there are already a number of research institutes and laboratories, but so far this is little more than an option.

The policy review is expected to be completed by next spring. It will recommend the development of high-technology concerns alongside the university.

Anthony Moreton

Industry

Development the relaxed way

"OUR INCENTIVE is that you can come to one of the most beautiful parts of the country," says John Williams of the planning department of Suffolk County Council.

"I suppose the real reason people choose to come here is the environment," echoes Margaret Camina of the Norwich and Norfolk Chamber of Commerce.

Given the frantic efforts made by various development authorities up and down the UK they must look in amazed wonder at how a scatter of market towns, off the beaten track of industrial Britain and separated by farms, fens and marshes, can lay claim to being, economically, the fastest growing area in Britain.

Norwich was recently named the best-placed UK city in an EEC-sponsored survey of over 100 European business centres carried out by Reading University. Felixstowe has grabbed 70 per cent of the UK container traffic.

Ipswich has attracted two big initiatives from British Telecom and cradled an audacious small airline; and, 10 miles south of Norwich, Lotus Cars is not only making an international name for its engineering and technological research and consultancy but is laying down a new production line.

"Bootiful," one can hear Bernard Matthews saying of both his own new 1,000-job turkey factory and all the other food processors which operate alongside the vegetable and grain-growing farmers. But how did it happen? Though both Norfolk and Suffolk cast envious glances at the hi-tech industrial success of Cambridge, neither has seemed even to wish to emulate its aggressive drive for growth.

Instead both Norfolk and Suffolk have adopted a rather relaxed approach to industrial development. Not only were there no big development grants, there were no big development budgets and missions. Land was made available for incoming companies and there was some concern about the pockets of unemployment caused by redundancies in the older or more labour-intensive industries.

Many new companies were started by bright young men moving into a relatively uncrowded and thriving area. But those men had to work it out for themselves. There was no nightly advertising on television apart from Peterborough and its chirpy Roman soldier with the sore feet.

Even opportunities staring the authorities in the face and crying out for attention were for a long time left to their own devices. Now tourism seems to be the flavour of the year for both Norfolk and Suffolk.

East Anglia realised long ago that small was beautiful. It has done little to change that view and has prospered just because it is fragmented. Although Ipswich accounts for 30 per cent of the job opportunities in Suffolk, and there are only two big centres in Norfolk, Norwich and Great Yarmouth, there are few companies with over 2,000 employees. By far the biggest employers of labour are the county and district councils and the National Health Service.

But a compromise has to be reached between the hands-off approach and the realisation that East Anglia must find nearly 100,000 new jobs in the next 10 years if it is merely to stand still. It must ensure that there are enough people with the right skills to support existing companies and attract new ones; and more co-ordination will be needed.

Mr David Cargill, chairman of Radio Broadland, says: "We simply don't sell ourselves as a region. An East Anglia development board run by businessmen and community leaders would do much to fill the gap left by the Department of Trade and Industry's regional offices, which have done little to attract the real high-flyers and have little clout when it comes to demanding better communications."

Both counties, however, have seen increased employment in the service industries. The Norwich Union insurance company, and HM Stationery Office are big employers in Norfolk, with the Guardian Royal Exchange and Willis Faber and Dumas in Ipswich. Mr Martin Armstrong, of the Peterborough Building Society, explains its intention to merge with the Norwich Building Society as meeting the challenge, on its own patch, of the big national societies in the provision of financial services.

But it will be in the region's ability to create a second generation of high-skill jobs, London expansion programme having benefited from the at the beginning of the 1960s, that will be the key to its future success. The announcement by Lotus Cars, now enjoying the financial strength derived from being a General Motors subsidiary, that it was to produce up to 4,000 of its new small sports cars a year compared with 800 a year of its current, more expensive models, also meant the creation of 700 new jobs.

Lotus has little difficulty in attracting engineers to work in its prestige consultancy division, but it has a neighbour in Norwich, Mr Andrew Lauder, of Tom Smith Christmas Crackers, who would like to have an easier time in the recruitment of work study engineers.

Like many East Anglians, Mr Lauder is critical of the slow progress in improving the main roads. The railway to Liverpool Street Station has been electrified and the A45 trunk road is fast, but even when the M11 is complete there will still be miles of single carriageway between it and Norwich, while the A1/M1 link completion is anybody's guess.

There are those who think that some businessesmen in East Anglia would be happy enough to remain slightly inaccessible and enjoy a quiet life without so much competition for Labour, but that would be to ignore the considerable current activity of companies in the region.

Reckitt and Colman is building a £10m soft drinks plant, while Datron International, which manufactures electronic testing and measurement equipment, has successfully launched itself on the US market, improved its profits, won a US Navy contract bought a US subsidiary and boosted exports to 40 per cent of output to win two Queen's Awards.

British Telecom has joined with Du Pont to develop, manufacture and market jointly opto-electronic components and devices used in optical fibre telecommunications as well as establishing a new data-processing operation in Ipswich.

Stuart Alexander

The region has one of the fastest growing populations in the UK, particularly through people moving in to retire. The Peterborough Building Society is merging with the Norwich to take advantage of this expanding mortgage business, says its chief executive Martin Armstrong (left). Attracting investment is more of a problem because East Anglia lacks a development board, according to David Cargill (right), a landowner, merchant banker and chairman of Radio Broadland

Newmarket

Horses sent to 53 countries

THE CRUNCH of car tyres on the thick gravel outside the Jockey Club suggests a solid sense of prosperity within. Indeed, the racing industry at Newmarket appears to be flourishing.

According to Mr Robert Fellowes, the Jockey Club agent, there have never been as many horses in training within a five-mile radius of the town—2,500 at the last count—nor as many studs or training stables—about 50 of each.

Certainly the Arab money which has poured in over the past six years has provided the industry with a welcome boost. As sponsors of major races at Newmarket, for example, the Maktoums, rulers of Dubai, run neck-and-neck with the William Hill Organisation behind General Accident.

The same family is paying for a seven-furlong artificial all-weather gallop, called Equitrack, now being laid on the Bury Side Training Grounds—a gift to Newmarket worth about £500,000.

Newmarket Racecourses Trust, controlled by the Jockey Club, is itself investing £4m in a new members' stand on the Rowley mile racecourse, now under construction and due to open for the start of the flat racing season next April.

In spite of stiff competition from the US, Newmarket remains the world's leading source of top race horses, says Tote Cherry-Downes, a bloodstock agent who handles the marketing for two famous trainers. Horses bred in Kentucky often return there for training. Last year Newmarket sold horses to 53 countries.

Almost 4,000 changed hands in the sales ring at Tattersalls, where deals are still done in guineas. Last year's aggregate sales figure was 73,499,147 guineas. The sky-high prices of two or three years ago — the record at Tattersalls was 1,550,000 guineas — show signs of sinking to a more sensible level, says the company.

A racehorse costs £10,000-12,000 a year to keep in training, so it is an expensive sport. Shared ownership schemes have, however, done much to open up active participation to more people and today's horses are less likely to be owned by dukes than by syndicates.

An even more recent co-operative idea is a foal-sharing scheme. The owner of a promising mare who wants to send her to a top-class stallion will go halves with the stallion's owner on the resulting foal as a way of off-setting the high cost of the nomination (covering fee).

A supply of competent stable lads and girls is ensured by the British Racing School which opened at Newmarket three years ago.

Each year about 100 16- or 17-year-olds, some of whom have never ridden before, take a 10-week course and a new advanced course for apprentice jockeys is scheduled for November. The school, run by Major Barney Griffiths, is funded by the Horserace Betting Levy Board and a percentage of racing prize money. Trainee jockeys pay no fees themselves. They even receive £5 a week pocket money.

The livelihood of about half the working population of Newmarket depends on racing. The saddlers, vets and farriers have long been part of the scene and this season two new enterprises swell their ranks. Both seek to demystify Newmarket for the uninitiated and add to the enthusiasts' enjoyment.

Newmarket Thoroughbred Tours is run by Ms Anna Ludlow, who previously worked for the Susan Piggot Bloodstock Agency, and offers guided visits to training stables, studs, the equine swimming pool and other attractions. Ms Meira Tattersall, who can claim common ancestry with the famous local firm, runs an information kiosk at the paddock on racing days.

She hopes to lure some of Cambridge's annual flood of tourists away from the Cam and the colleges for a taste of sporting life.

Alexandra Buxton

PROFILE: F.W. HARMER

Out of uniforms and into the shops

THE YEARS between 1980 and 1982 were traumatic for F. W. Harmer, the Norwich-based manufacturer of men's and boys' outerwear.

"As the recession hit the industry," says Mr Tom Harmer, the sixth generation of Harmer to head this family concern, "we ran into all sorts of problems.

"But we survived when many others failed. We lost the bedrock of our business at the time, making uniforms for public utility employees, but we found a new business and that business is growing."

The recession was not the first time that Harmer has had to take stock of itself. At the end of the first world war it shut one plant for three months to reorganise production following the ending of demand from the services for army and navy uniforms.

During the 1939-45 war its main premises in the centre of Norwich were destroyed by enemy bombing and the new plant, which the company still occupies, was not ready until 1947.

Both those disasters were, however, overcome while continuing the same general strategy of concentrating on men's outer clothes, especially uniforms, which in 1979 accounted for just over half the company's output by volume.

The difference between 1980 and 1946 or 1919 was that Harmer had to rethink its whole strategy if it was to survive. "In 1980," Mr Harmer says, "the Ministry of Defence called a six-month moratorium on new contracts and when that period was over there was intense price competition from all those companies wanting to get back into the market

"About the same time public utilities began cutting back on orders as labour turnover dropped. The Post Office went a whole year without placing any orders at all."

Uniforms within a short time fell to under 3 per cent of turnover and though there has been a slight recovery it is unlikely they will ever play the same role in company policy as previously.

The reason is that Harmer has switched the emphasis to supplying large retail groups such as Burton, Asda, Tesco, British Home Stores and C & A. These now account for £7m of this year's £11m projected turnover. Most of the rest will come from blazers, almost exclusively for boys' wear, and jeans.

"Uniforms are useful as they can fill in gaps in seasonally slack periods, such as January and February," says Mr Harmer. "But I doubt if they will ever be of great importance again."

Harmer's move towards the big retailers came about almost by chance. The group had, after the setbacks of 1980, made an initial move into producing for wholesalers, a difficult market. Mr Harmer now sees it as a false step.

Trading with wholesalers is difficult because the failure rate among them is high and suppliers can be left with unpaid debts.

Mr Harmer was therefore pleased when an introduction to British Home Stores through his membership of one of the industry's Economic Development Committees—part of the National Economic Development Office—led to orders.

"It is very difficult to break into the group who supply the stores," says Mr Harmer. "The problem is one of credibility. If you do not supply them the rest think you are not capable of supplying them. How can you prove you are capable without supplying them?"

The big success has been the Burton group. The Norwich company has now become one of its leading trouser suppliers, with about 7,000 garments a week. Already the two sides are engaged in talks intended to boost this number to 10,000 a week.

The other major market is Asda, for which the company makes ladies' trousers. Women's wear accounts for about a quarter of total turnover and Asda is the major market for much of that production.

Altogether the company is turning out about 30,000 garments a week at its plants in Fakenham, towards the Norfolk coast, and Syleham Mills and Stradbrook in Suffolk as well as Norwich.

When the company moved to its present site in Norwich in 1947 it was fortunate to take more space than it needed at the time and so has room for expansion. Mr Harmer estimates it could produce another 5,000 garments a week in Norwich alone—and more if the warehousing were reorganised or moved to another site.

The big problem now facing the company is not so much space as profit. The company is owned within the large family and last year it made what Mr Harmer describes as "a bit of a profit following losses in 1981 and 1982." This year it expects to make just under £500,000 which, he admits, is "not good but better than last year."

To get profits moving again means new management, but there is a succession problem within the family since no young Harmers appear to be destined for the clothing business and it is difficult to motivate new managers who can never exercise an important role in ownership.

Mr Harmer does not think the question of outside management will really have to be met for another decade. But it is already influencing board thinking—where only two of the eight members are Harmers—on whether to seek a quote and so raise non-interest bearing equity capital, and accept the outside pressures which come with it, or stay private and rely on high-interest borrowing for expansion.

The success of the present strategy has to some extent reduced the the need to think longer but Mr Harmer admits that management restructuring cannot be put off indefinitely.

For the moment, though, the order book is bulging and if profit can be improved all those family members who look to their shareholdings for income will also be pleased with the way the concern is going.

Anthony Moreton

EAST ANGLIA 3

Agriculture

Mood of apprehension

WHAT PRICE a farm in East Anglia? Traditionally very high, but although farmers are notoriously downbeat about their fortunes and prospects the mood of apprehension—which is rife *in the granary of the UK*—is almost tangible.

Given the supporting cautionary noises from outside pundits, this time it is probably justified.

For all the problems in Africa, the world in general is producing too much food. The *EEC has shown that it is* prepared to grasp the political nettle and force production *down, surprising many* when it introduced quotas for milk. Cereals are already under scrutiny, *which means* that East Anglia may be in for another shakeout if subsidies decline.

More of the land in the region has been devoted to cereals over the years and yields have been increased. There have been similar improvements in the efficient production of root crops and other vegetables.

So farming efficiency is not a problem and annual fluctuations in crop yields can be absorbed in an otherwise stable environment. It is not the crop yields which are worrying but the prospect for adequate financial returns on the big investments involved.

But where money has been borrowed to buy land, buildings and equipment there is a real price to pay to a real bank manager. So if the European Commission squeezes prices rather than introducing quotas for cereal growing then every acre could become unprofitable, a much bigger problem than just seeking alternative profit sources from acres taken out of cereal production.

Although the region is establishing a good reputation for conservation as trees and hedgerows are replaced, it is more difficult to persuade farmers to abandon intensive farming and reduce *yields per acre* by using less chemical fertiliser. So there is a lot of debate and lobbying to ensure that any system of control takes the farmers' views into account.

The National Farmers' Union is keen to be involved in the discussions rather than see quotas arbitrarily imposed and many would prefer the US system of "set-aside" payments where a farmer is paid not to grow his normal crop, or indeed any other crop on the land concerned. An extension of that idea is the NFU's proposed long-term forestry support scheme.

That is not to say that farmers *in East Anglia can no longer* afford to spend the odd day at Newmarket races. Farmers in *the Fens are still regarded* as some of the richest in the UK, in spite of having to supply the *more volatile market for vegetables*, which make up nearly half their land usage.

They have to be canny about planning and have gone in for largescale mechanisation, but they must wince when they also have to live next to storage facilities for some of the EEC food mountains, particularly the potato one.

Since the heady days of 1973 when the UK joined the Common Market and land values soared, helped by institutional investors who saw land as a rapidly appreciating commodity, many farmworkers have been laid off. Agriculture now accounts for only about 6 per cent of the East Anglian workforce.

Farmers who would once have bought neighbouring land which came on to the market are now sitting tight. Machinery sales are down and, after a relatively poor harvest last year, a difficult planting season for some last autumn and a slow start this year, prospects for improving the sluggish cash flow are not good.

Land values rose from £300 an acre *in 1972 to £3,000 in 1982*, more than twice the rate of inflation, but have been steadily *falling to between £1,500 and £2,000* an acre. Many farmers are also convinced that the Com*mon Agricultural Policy support* system will have to be radically reorganised, bringing prices *down to £1,000 or £1,200 an acre*.

Such uncertainty makes it difficult to persuade a potential land buyer that prices may not keep falling. Those with long memories look back to the 1920s and 1930s when land prices and rents plummeted and the landlord was in no hurry to collect.

Such a situation would not be allowed to arise now and prices will not hit the floor. But the principle behind the thinking has not changed—that is that it is better to see land cared for and kept in cultivation rather than let it go to rack and ruin.

The underlying strength is great. As Mr Harry Hornor, senior partner of Peat Marwick's Norwich office, explained: "We have mature and efficient production of cereals, and the same applies to vegetables, roots, poultry, some beef and sheep and even, despite wild fluctuations in price, pork.

"The farms in the region are closely linked to the food-processing plants, which have also become more automated, and at rock bottom there will be a continuing need for a loaf of bread and a pint of milk. So good farmers will always make a living."

Being a good farmer, however, also means being a good business manager. There is a limit to the debt interest that can be serviced, just as there is a limit to the amount of food that can be produced and sold. Reduce the second part of the equation and one automatically reduces the first, but where a solution is imposed and a farmer is overstretched there could be some who will go to the wall.

"Somebody has to cut back the amount of food we grow," says Mr Hornor. "But if the price mechanism is the chosen route then it will be a long, long road."

In his excellent survey of farming in the Eastern Counties, Mr Michael Murphy, of the Agricultural Economics Unit of the Department of Land Economy at Cambridge University, looks at the prospect for cereal farmers if the European Commission were to reduce prices. He takes as his benchmark a fall to £85 per tonne for wheat from its 1984-85 level of £113 a tonne and estimates that in spite of this leading to a 20 per cent reduction in the real gross margin per hectare the most efficient cereal farmers would continue to devote just as much land to growing them.

But if the price were to go below £80 per tonne, says Mr Murphy, profit-maximising (upland) farmers "would have no option but to reduce the proportion of the area of cereals from an estimated 66 per cent (of their farms) to 56 per cent. This, says the report, would reduce the area of cereals per farm from 98 to 83 hectares and across the Eastern Counties it would result in 150,000 hectares being removed from cereal growing, or about 15 per cent of cereal growing in the UK.

This begs the question of what else to do with the land. The crystal ball is rather cloudy, but not all of the answer can lie in schemes like the Broads Authority, which is paying farmers £50 an acre not to drain further the land for cereal growing but instead to leave it wet and to graze cattle on it.

The conservation, even restoration, issue will be important in many parts of East Anglia. But as long as city-dwellers want abundant and varied food the farmer will have to be paid to produce most of it. Whatever uncertainty there is in the short term, a wise bet would be that farming will still be flourishing in East Anglia in 100 years' time.

Stuart Alexander

Possible EEC cereal quotas are worrying farmers

Finance

A partnership with the City

CAMBRIDGE does not immediately spring to mind as a financial centre. But with the growing need to provide increasingly advanced financial resources for East Anglian companies a financial community is emerging within the city to complement that existing elsewhere in the region.

The proximity to London, the cachet of Cambridge itself and, of course, the presence of the university have all led to a number of financial concerns and associated professional firms setting up in the city.

These developments complement the insurance industry largely concentrated on Norwich (Norwich Union and Sedgwick) and Ipswich (Willis Faber).

The first merchant bank to arrive in Cambridge was Singer and Friedlander over a year ago. Since then Newmarket Venture Capital has started in conjunction with King's College while leading firms of accountants such as Coopers and Lybrand, Deloitte Haskins Sells and Arthur Andersen have opened offices. Another is 3i (Investors in Industry) while in Norwich there is East Anglian Securities Trust.

One of the most interesting of the newcomers is Cambridge Capital, a marriage of City and college. It was formed, in the words of Mr Francis Madden, its managing director, "because I felt that a credible corporate finance activity should be established here. There was a need for a partnership between the City of London and this city."

Cambridge Capital Developments was formed last year with Capel-Cure Myers and a number of the colleges among the shareholders. Alongside it, CCD has established Cambridge Research and Innovation to make small investments in high-technology companies, mainly those in the region.

The aim of Cambridge Capital is to provide a range of merchant banking corporate financial services and to administer and run funds. "There is a shortage of concerns able to do this sort of work in any fast-growing area," Mr Madden claims.

The development of Cambridge as a financial centre can only enhance the attractions of East Anglia as a whole. Small growing companies, it is claimed, prefer to deal with institutions who are neighbours, being apprehensive of the City of London and otherwise having to rely on the commercial banks.

Anthony Moreton

The Arts

Campaign for more backing

AT THE OFFICES of the Eastern Arts Association in Cambridge the visitor has to negotiate towers of cardboard boxes and racks laden with brochures promoting events and centres as diverse as contemporary photography at the Cambridge Darkroom and Gainsborough's birthplace in Sudbury.

Yet in his office overlooking Bridge Street, the association director, Mr Jeremy Newton, maintains that the arts in East Anglia are nothing like good enough at selling themselves — in spite of participation being more active than ever.

Now engaged in a campaign to attract greater business sponsorship, Eastern Arts is intent on remedying this shortcoming. The initial results are encouraging. A property developer, Norwich Investments and Securities, for example, has committed £25,000 to an arts festival based at its conversion of the old Norvic shoe factory. This figure is matched pound-for-pound by the Government's Business Sponsorship Incentive scheme.

While the newer East Anglian industries are likely to see arts sponsorship as part of an enlightened public image, the Ipswich brewer Toby Cobbold has been running a biennial competition for visual artists since 1977. The total budget, shared with Eastern Arts, is £70,000.

The travelling exhibitions, which gives the region the chance to see work by new artists, is seen as a soft sell publicity for brewery by Mr Richard Cobbold, director and enthusiast for the graphic arts.

In the past three years Eastern Arts has quadrupled its funding and will spend £2m this year, bestowing its patronage in amounts varying from £50 for a mural project to £191,000 for the Mercury Theatre in Colchester. A £1.5m grant comes from the Arts Council, £250,000 *from* local government and £250,000 from other national bodies and sponsors, most *sponsorships going* direct to the recipients.

Local councils are looking more and more favourably at expenditure on the arts, says Mr Newton. Basildon Borough Council, for example, is spending £7m on a new theatre.

East Anglian art activities are centred on 10 or 12 sizeable towns, with about 100 smaller ones sustaining a regular programme. No longer content with the village hall or primary school, a growing number of even smaller places are demanding their own arts centres—Mildenhall, Diss and Swavesey among them.

Festivals, too, are thriving, from the Straw Bear Festival in the village of Whittlesey (a pagan folk celebration) to ambitious annual productions at King's Lynn and Cambridge. Peterborough is planning a *year-long programme* to celebrate its 750th anniversary next year.

This month the Cambridge Festival, now in its 24th year, had an artistic director for the first time, Mr Guy Woolfenden, head of music at the Royal Shakespeare Theatre. He chose *Hungarian music* as the festival's theme, reflecting Cambridge's recent twinning with the Hungarian university town of Szeged. Events ranged from the highbrow (concerts by major orchestras), through the avant-garde (bicycling performance art on Parker's Piece), to the touristic (medieval banquets in the colleges).

A flourishing fringe festival has built up around the more official happenings. By the 1987 festival, Cambridge will have a decent concert hall. After decades of controversy, the Corn Exchange is being converted at a cost of over £3m.

Privately-funded renovation on a smaller scale has rescued cinemas in Cromer, Halstead and Harwich (where the Electric Palace is the oldest restored cinema in Britain).

Other jewels in East Anglia's arts crown include the Wells Centre on the north Norfolk coast, Snape Maltings at Aldeburgh, and the Theatre Royal in Bury St Edmunds, a Georgian building owned by the National Trust and the third oldest working theatre in the country.

Founded by John Maynard Keynes in 1936, the gala recital celebrating the 50th year of Cambridge's Arts Theatre drew together some of the many great names who made a debut there—including Eleanor Bron, Peter Hall, Trevor Nunn, Daniel Massey and Clive Smith.

Alexandra Buxton

Irene Worth and Sir Peter Hall at Cambridge Arts Theatre's Gala Recital

Ports

Sea bridge challenge

CAN THE "sea bridge to Europe" beat off the challenge of the Channel tunnel? Despite a chequered decade which has seen roaring success tempered by difficulties and adversities and yet all overlaid by ambitious plans, the ports of East Anglia are looking nervously over their shoulders.

What will life hold for them all—Felixstowe in particular—when the fixed direct link, the long-awaited Channel Tunnel, opens for business in the 1990s?

It is not a resurgence of competition from the UK ports of London, Southampton, Liverpool or the Clyde that is worrying planners and businessmen.

Instead it may be Le Havre that challenges the might of Rotterdam and Antwerp. A single-stop port a shorter distance up the Channel, rather than in the North Sea, could have its attractions. The ability to put containers on to a purpose-built railway not far up the coast which would then carry the goods directly to every part of the UK could see all the others by-passed.

British Rail is spending some £400m on rolling stock and equipment to handle the goods and so will present some well-ordered competition.

Not surprisingly, Felixstowe rejects any suggestion that its continued progress as Britain's first and most successful container port will be slowed down. Since it is part of the European Ferries group, which has another vested interest in seeing people, cars, coaches and lorries carried over the water rather than under the sea bed, that is understandable.

Felixstowe is also driving ahead with ambitious expansion plans which would put it into Europe's big league of container-handling and consolidate the East Anglia/Rotterdam axis.

The port has enjoyed phenomenal success. It is the fifth biggest container port in Europe and one of the top 20 in the world. Last year it handled over 500,000 containers for the first time in its own or UK history—518,000 in round numbers—and has been breaking records for the past 14 years.

It has also increased its capacity in record time. Land reclamation for the new £42m Trinity terminal—named after Trinity College, Cambridge, which is the ultimate landlord—began in January 1985 and the first ship was handled on its 600 yards of new quay in January this year.

The new cranes, designed in co-operation with and built by Herbert Morris of Lincoln, are the fastest of their kind in the world. They can handle a container a minute and transfer them to computer-managed storage and retrieval bays. Running at full stretch, Felixstowe will be able to handle 750,000 containers a year, compared with Rotterdam's 1m-plus, and there is more to come.

A private Bill, being considered by Parliament, would create a new land bank of 200 adjacent acres. The Trinity terminal and the new railway line to complement it exhausted the port's existing limits.

Felixstowe had hoped that the third reading of the Bill would be completed in this session of parliament but it has been delayed and will now have to go back at the beginning of next session.

It will have taken 2½ years to consider all the objections and to resolve the fears of the conservationists, who look askance at an area designated as one of outstanding natural beauty turned over to industrial use. The port authority, as part of the package, has offered a further 170 acres next to the new port as a nature reserve to be administered by the local authority.

The net result, in commercial terms, would be the building of a 1,000-ft new quay and an increase in job opportunities. In addition to the 1,800 port employees a further 3,000 people go through the gates on business every day. It is an important part of Felixstowe's attempt not just to keep up with its competitors but to do still better.

For Great Yarmouth, life has not been so bountiful since the fall in the oil price. But despite the consequent job losses and its 18 per cent-plus unemployment rate, Great Yarmouth also has a Bill going through Parliament that would create a new outer harbour at a cost of at least £66m. Many think that figure may double before the work is complete, however.

Although one of the main reasons given for building the outer harbour was the need to meet the growth in trade from the offshore supply vessels serving the North Sea oil and gas platforms, the feasibility study also pointed to the opportunities in related fabrication yards, the ability to compete for container traffic, expansion of the roll-on/roll-off service currently offered by the Norfolk Line and increases in bulk trade.

It also saw the opportunity to take a slice of the vehicle import market. Mercedes-Benz has built a big pre-delivery vehicle preparation plant at Harwich while Volvo ships its cars from Sweden through Felixstowe. East Anglia's relative proximity to the North European and Scandinavian ports and the car factories that could ship vehicles through them is something that Great Yarmouth would like to exploit before its neighbours grab everything.

But the whole scheme will look much healthier if the oil industry is able to balance the costs of North Sea exploration and recovery with the prevailing market price of oil and gas.

Besides being the port of entry for Mercedes-Benz, Harwich is also a passenger ferry terminal and wishes to develop further the opportunities for factory and distribution facilities. Ipswich has seen its bulk trade increasing satisfactorily and would also like to see more factory units.

Ransomes Sims and Jefferies, best known for its grass-cutting machinery, has cut its manpower as part of the general move towards greater automation and productivity. It is developing some of its dockside land for warehousing and nursery units.

Lowestoft, too, has been hit by the turndown in North Sea oil and gas activity but is in the process of rebuilding its fish market and has attracted, rather surprisingly since it is in Suffolk, enough support from the North Norfolk fishing fleet for some of them to ask Norfolk County Council to support financially the Suffolk scheme. Norwich has yet to decide, however.

There seem to be small ports every 20 miles or so on the East Anglian coast and all are anxious not only to survive but grow. King's Lynn, in addition to developing its industrial base since becoming a GLC expansion town in the early 1960s and a major shopping centre, has also been expanding its port traffic. It now handles over 1m tonnes of cargo a year and proudly claims that this is more than twice that of the rather better-known Lowestoft.

There are, of course, air connections from East Anglia to the Continent. Airports at Norwich and Ipswich are both thriving. Ipswich has seen the establishment of Suckling Aviation, run by a husband-and-wife team with just one aeroplane, a new Dornier, which takes passengers from Ipswich to both Amsterdam and Manchester.

Stuart Alexander

Felixstowe rejects any suggestion of a Channel Tunnel threat

Tourism

Vision needed for revival

HUNSTANTON, on the Wash, has two unique features. It is the only East Anglian resort that faces west and its beach is bordered by striped cliffs formed from successive layers of carr stone, red chalk and white chalk.

Despite its eye-catching geology, Hunstanton has never quite caught the public imagination.

As the big crowds have package-flown to the Costas, the Adriatic and the Aegean, Hunstanton and the other resorts along this breezy North Sea coast have had to build a summer economy increasingly on self-service accommodation and day-trippers and try to compensate for the lower income this brings by extending the season at either end.

From Aldeburgh to Walberswick the resorts have had to come to terms with a situation that is common around much of Britain: a static demand for holidays from Britons, or at best a sluggish growth, with overseas visitors providing such jam as there is.

Visitors bring about £600m into the region, almost a quarter of it (23 per cent) from overseas tourists. They account for less than 10 per cent of the 12m tourist trips to the region each year and spend on average £115 each. The average Briton spends about 42p a trip.

The places which have been able to cope best with the situation are those like Aldeburgh, Cambridge or Ely, which offer something different, or those that have been able to spend to provide the facilities essential to insure against the vagaries of Britain's summer climate.

California is a good example of the change. A decade ago it was difficult to obtain a holiday chalet or bungalow in this resort just north of Great Yarmouth. Nowadays there are plenty available. Yet where there has been recent investment in new self-catering facilities, such as Wroxham, a pretty village between Norwich and Cromer, there is evidence that the visitor can still be attracted.

The problem lies in the older resorts which have failed to come to terms with the times. They now need to realise that it is not enough to put in the sort of facilities people want at the moment; they should be planning to create 21st century resorts.

"What many resorts need," according to Mr Procter Naylor, director of the East Anglia Tourist Board, "is a partnership between local authorities and commercial interests. Land ownership, planning and the seafront have all to be integrated."

Mr Naylor is careful to name no names but it is clear this vision is needed most in Great Yarmouth—the pearl of the Norfolk coast, a resort that once ranked with the best in Britain.

Yet Yarmouth today has seen the 1960s and 1970s pass it by. The town's burghers have seen its redevelopment more in terms of its port and the building of facilities to serve the North Sea oil and gas industry than in catering for the holidaymaker.

As the older beach resorts have slipped new centres have emerged and the most important is Cambridge. In high summer, as the crowds of French, German, Italian and American visitors queue for punts on the river, sandwiches in Marks and Spencer, drinks in the Granta or just jump at the chance to get out of their air conditioned coaches, it is sometimes easy to forget that the Backs and King's Parade are in the heart of one of the world's great universities.

Cambridge is now firmly on the East Coast culture run—on to Ely, Peterborough, York, Durham and Edinburgh.

The danger for Cambridge is that the pressure of the number of visitors might bring the city to a grinding halt.

The answer is to spread the jam a little more evenly by inducing the visitor to be a little more adventurous and take in Norwich, King's Lynn, Orford, Sudbury or Wisbech. This is uncommonly rich countryside ranging from the flatness of the Fens to Constable's riverside landscape.

There has been some success among American visitors, many of whom served in East Anglia during the 1939-45 War.

One problem is that the tours are dominated by operators who prefer to shepherd their flocks at pre-determined times to predetermined destinations. Wanderers off the beaten path are not welcomed by tour guides.

Things are improving, however, Mr Naylor insists. "The opening of the M25 should open the door of East Anglia to people who never thought of us before. We have more individual visitors than those on package tours," he says. "Hotels are being improved and others built, with a major one in Cambridge."

The negative side is that 40 per cent of the accommodation in the area (and probably as much as 60 per cent in Yarmouth) is in the parked caravan. So tourism is largely about attracting the low spender and will continue to be so for some years.

"Three years ago we hoped these caravans would go away. Now, we have changed," says Mr Naylor.

"Chalets can be tatty, too. Caravans have a limited life and are replaced by new ones. So we decided to think in terms of upgrading the caravan parks to attract a higher spender. In places and with the support of companies like Ladbroke, we have created a village atmosphere in the parks."

Anthony Moreton

Cambridgeshire

Dilemma of balancing development

EVERYTHING about Cambridge at present seems to have the ring of success. Its science park and the related phenomenon of high technology growth all around the city have presented one vision of what the new industrial Britain could be like.

The national suppliers of sophisticated services — merchant bankers, management consultants, accountants and computer consultancies — are falling over each other in the rush to set up branches in the city, joining the long list of local services providers who have already done the same.

As if to crown this success, the university has just been selected as the new location for one of Britain's most important scientific institutions, the Royal Greenwich Observatory.

It is a measure of the city's strength and attractiveness that it can turn away jobs other areas would welcome. Offices designed to provide for more than local needs are discouraged and new manufacturing employers have to demonstrate a need to be within the ambit of Cambridge.

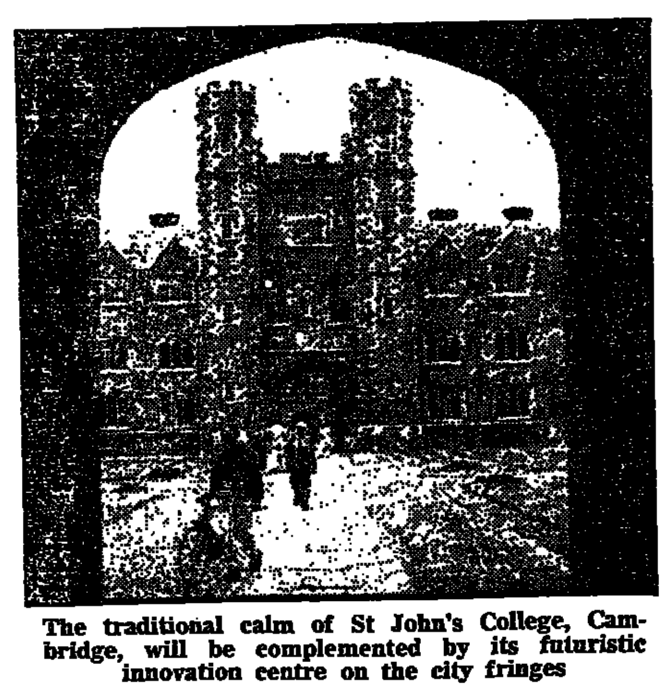
"We don't want to allow industry to rip so that the university becomes the South Bank of a major industrial city," one senior county official observes.

This success, however, remains localised and the benefits have only just begun falteringly to spread out to other parts of the county, by no means all of which is as prosperous as Cambridge itself. Cambridgeshire's problems are in fact the strong contrasts which now exist within its borders — strong growth and agricultural decline, labour shortages in high technology industries, and a lack of jobs in remoter agricultural areas.

For county planners the dilemma is in developing and implementing policies which will somehow enable balanced development to be achieved.

The main pressure on resources is in the south and west of the county. New companies in the high technology field—and some 30 a year are currently being started—want the prestige of a Cambridge address even though achieving that on the science park can be more costly than in other locations in the county. They also want access to the pool of skilled labour in the area and the comfort of proximity to other companies in similar or allied fields and to specialist advisers.

Communications developments are reinforcing the attractions of this part of the county. The development of Stansted just



The traditional calm of St John's College, Cambridge, will be complemented by its futuristic innovation centre on the city fringes

over the border in neighbouring Essex to handle 8m passengers a year will bring international airport facilities to the city. The main line from Liverpool Street is being electrified, bringing faster and more frequent services. As a result Cambridge is being brought more strongly into London's commuting orbit.

Though the city's tight boundaries have largely prevented the consequent housing demand from being met within Cambridge itself, there has been considerable growth in population and homes in the surrounding "necklace" of villages. Prices, too, have risen substantially—by 20 per cent a year on some estimates. The lowly-paid, of whom there are many in Cambridge working in college domestic jobs or part-time tourist work, are effectively squeezed out of the housing market.

Similar communications inspired growth is taking place in the Ouse Valley towns — Huntingdon, St Neots and St Ives situated on or near the fast King's Cross to Peterborough line, which is also being electrified. These towns offer both a pleasant environment and house prices substantially below those in commuter areas to the south, west, and east of London.

Policies in other counties are also having an impact. Hertfordshire, Bedfordshire and Essex are all arguing that they have reached the limits of the expansion in population they wish to accommodate. Between now and the end of the century the population of Cambridgeshire is expected to rise, from a combination of natural increase and inward migration, by 100,444 from the present 650,000, generating a demand for 55,000 new houses.

Yet, if these are provided in the areas to the south of the city, where demand is likely to be strongest, it may simply encourage more inward migration from commuters working in London, thus adding to the already strong pressures on the centre of Cambridge itself.

The other side of the picture is the slack in the county's economy in remoter rural areas to the north and west, where the impact of reduced requirements in agriculture, still one of the most important industries, is being felt. In the Fens high levels of unemployment exist in both Wisbech and March, even if the actual numbers are small.

Peterborough, too, though it has attracted industry and offices to counterbalance losses in heavy engineering, its former staple industry, still has a long way to go. In some parts of the city unemployment is well over 20 per cent, and from 1988, when its development corporation is being wound up, the city will have to fend for itself. A road between the A1 (on which Peterborough stands) and the M1 will benefit the city and other northern parts of the county but is unlikely to be completed before the 1990s.

In March, like Peterborough a former railway town, a prison is taking shape which will bring new jobs to the area. The town was volunteered as a site for a prison by the county council which was anxious to inject new resources there to replace jobs lost with the relocation to Cambridge of a number of local authority posts.

The spin-out of jobs from Cambridge to these towns and to other parts of the county has been relatively modest, however, and despite some brave initiatives—Sinclair at St. Neot's—the pace does not seem to be picking up. There has, indeed, been some drifting back to Cambridge from the villages.

The revised structure plan on which the county is now working with the district councils has to provide the framework for dealing with the problems that this uneven growth presents. It is likely to restate broadly the main principles which have guided the council's approach to date while at the same time recognising the need for some extra flexibility and some additional growth in selected areas.

As far as Cambridge itself is concerned restrictions will remain tight on new housing and shopping provision, with infilling of vacant sites for new houses or commercial premises providing one of the main forms of relief. Other growth will be channelled to selected large villages around the city. New village developments along the lines of the Bar Hill development north of Cambridge are also likely to be considered.

Industrially, Cambridge itself will be expected to continue to specialise in the research and development aspects of high technology; prototypes would in theory be expected to develop within the wider range of the "phenomenon," still relatively close to Cambridge, while other industry, including the basic manufacturing activities of high technology companies which grow beyond small firm size, would be encouraged to settle in locations throughout the county, including towns in east Cambridgeshire and the Fens, and at selected growth points in the Cambridge, Huntingdon, Peterborough corridor.

Such larger-scale developments as might be attracted would, if the strategy works, go to Peterborough, the only location likely to have a sufficient pool of available labour.

Rhys David

THE ARTS

The World Again/Coliseum

Clement Crisp

Festival Ballet's new programme on Friday night had as its centre the première of Christopher Bruce's *The World Again*. Mr Bruce is now the company's Associate Choreographer, and this creation stretches the dancers in a work very demanding to perform, and not a little difficult to comprehend. The backdrop is a vast disc, half seen, like a view of a planet from space; the cast of men and women dressed alike in trousers and loose tops, save for Janette Mulligan, as the central figure, who is allowed a rather dull dress. Geoffrey Burgon's handsomely sonorous score seems to pulse and shimmer, then burst into bolder sequences that impel the dancers into racing activity. The action has a ritual feeling, the cast moving from somnolent poses to bold swathes of dance that surround Miss Mulligan, occasionally isolate her with her partner, Martyn Fleming, then bear her along on the waves of movement. *Is the piece a metaphor for the earth's cycle of seasons, a view of the Persephone myth, a journey of rediscovery and rebirth?*

Indications there are none in the programme, and the only hint comes with the late emergence in the score of a soprano vocalist who repeats the phrase "I come regenerate into the world again." I am no fan of obscurity for its own sake, and deplore our being left in the dark. But, equally, I must salute the brave sweep of the dance, and the total dedication of the cast, who suggest the mystery of the piece.

Framing this novelty are two of the most demanding test works of the classic repertory: the Shades scene from *La Bayadère* and the recently acquired *Symphony in C* by Balanchine. Some of the descending chain of Shades need to find a deeper stretch to their initial arabesque, but the solos were cleanly done and Andria Hall and Peter Schaufuss conveyed the other worldly grandeur of their choreography.

It would be idle to suppose that Festival's artists can match the clarity and muscular tautness that New York City Ballet bring to Balanchine's masterwork. Instead we have Balanchine after the manner of Stratford atte Bowe, but the ballet is so glorious, so stunning in its procedures and so exhilarating — the cascade of dancers in the last movement must count as one of the most intoxicating pieces of choreography ever made—that the heart rejoices.

Royal Ballet School

Clement Crisp

It is rarely that the Royal Ballet School's annual performance at the Royal Opera House shows us male dancing of any considerable interest. Boy dancers tend to develop later than girls, and my clearest recollections of the chaps at these junketings are of the liveliness of the Junior School sprites nipping through country dances, or—not so long ago—of Michael Clarke's tremendous promise in Scottish dancing. But Thursday night's programme brought welcome indication of male talent: a still gangling young fellow with the promise of a huge jump, and the exceptional contributions of Sergiu Pobereznic and Michael Cassidy, which inspired bright hopes for their careers.

The evening began with a tribute to that king among danseurs, Erik Bruhn, whose death in April this year was so terrible a loss. From his *Here we Come*, which the School showed a couple of years ago, Michael Nunn danced a brief solo with easy charm, and there followed *Class/Ballet*, an exercise in classroom steps as choreography by Mikhail Messerer, set to a flood of adulterated Glazunov.

In it the young went neatly through their academic paces. There were irruptions by noxiously cute little girls, who should have been in bed hours before and of whose futures I have the darkest suspicions if they can be so winsome so young; and, as a reward, the appearance of Michael Cassidy, a senior student with a strong jump, clean beats, and an air of muscular power, all of which were the best auguries for his future. This example of the School's work was dedicated to the late James Monahan, a former director, and also a most distinguished critic.

The centre of the programme was an Ashton tribute, with the little *Nursery Suite* lately made for the Queen's 60th Birthday Gala happily revived, and showing us a gentle reminiscence of the young Princesses Elizabeth and Margaret Rose, roles sweetly taken by Zara Deakin and Susannah Jones. Next came a lively account of *Les Rendezvous* in which Sergiu Pobereznic displayed an already stylish technique — elegance; intelligence; and well-rounded abilities—in Idzikovski's created role. And in the closing presentation of MacMillan's *Concerto* Mr Pobereznic led the first movement with the attractively serene Anne Little, while Mr Cassidy partnered Larissa Szechenyi, her long line well suited to the adagio, and Darcey Bussell, with a broad jump, was soloist for the finale.

The standard performance, the polished account of *Les Rendezvous* and *Concerto*, were impressive, the young dancers looking well-mannered throughout. Of individuality, of much nuance of style—truly generous *épaulement*, physical drive, effects not all confined within bounds of niceness and facitious "good-taste"—there was less to admire. Oh, for just one unruly spirit and the promise of temperament, and not a single polite moment!

I am reminded of Natalya Dudinskaya's remark when the Leningrad School graduated Natalia Makarova, Ali Sizova, Yury Solovyov into the Kirov Ballet in the *Swan Lake* pas de trois. "Well, what burdens God lays on the soul!" We must hope that the Royal Ballet School will soon help create such burdens for itself.

A view from the west side of the island in the garden of the Hon Charles Hamilton Esq at Painshill near Cobham

Architecture/Colin Amery

Restoration of a great landscape

It is at this time of the year that the British genius for *Landscaping* should be celebrated. On a recent visit to West Wycombe Park, for one of those strange English summer events at which hundreds of perfectly decent folk suddenly dress up as mad 18th century persons or Turkish belly dancers to enjoy a National Trust *fete champetre*, it was the extraordinary beauty of the park that impressed me most of all. The Claude inspired landscape of Humphrey Repton is one of the most sensitive landscapes in the country. In the mist of a summer evening Repton's genius and skill in achieving unbelievably romantic effects on a small scale reaches the sublime. Wonderful though it may be to see the fireworks drift across the skies of Buckinghamshire to the strains of Handel, it is also timely to look at the *practical problems* that lie behind the landscape's contrived beauty.

Painshill Park, near Cobham in Surrey, is not as well known as West Wycombe, Stourhead or Stowe, although it will in the fullness of time come to be seen again as one of the very greatest 18th century landscapes in Europe. It is the creation of that connoisseur, painter and traveller, Charles *Hamilton (1704-86) who was the* youngest son of the Earl of Abercorn. The great interest in the park today is that after years of neglect since the Second World War it has been rescued in a most positive and spectacular way. The rising tide of interest in the history of gardening and landscape is probably one of the most remarkable things of our own time. It was the sensitive pressure of the Garden History Society and the Friends of Painshill that gradually persuaded the enlightened Elmbridge Borough Council to purchase the park over a period of some six years. They then took the next step and established the Painshill Park Trust, appointed a director and an advisory panel and the restoration of the 158-acre creation has been proceeding for five years.

Why is Painshill so important? For two reasons—it is contemporary with Stourhead but very different because it was saved from any Victorian changes; and it is the creation of a man who was a serious artist. Hamilton did the conventional Grand Tour but he stayed much longer in Rome. He painted, and although he is not remembered as an artist he had as rare a gift — he was able to study one art and apply it to another. He collected pictures by Poussin and had two Salvator Rosa landscapes that he kept to the end of his days. For Hamilton the influences of *the architecture of the Classical* world and of the paintings he loved were profound. The result at Painshill was so good that even Horace Walpole was sufficiently impressed to describe it as "a fine place," an achievement of "one of my Patriarchs of modern gardening."

Because it is so important as a prototype of the created landscape Painshill's restoration is in itself like the making of a work of art. Under the skilful guidance of the director Janie Burford, who is a landscape architect, teams of workers, many from the Manpower Services Commission are now clearing, planting and reordering the formerly neglected park. All the trees in the park have been surveyed and detailed research has been carried out to ensure an accurate and faithful restoration. There is, fortunately, a considerable amount of historical material and documentation so that complete restoration is possible.

Apart from the two areas of the park—the ornamented *pleasure ground and the* surrounding crescent of open parkland — Hamilton's grounds *were particularly famous for* the follies and buildings. Although these are challenging and expensive to restore they are key elements in the whole design. The gothic temple, the Temple of Bacchus, the ruined gothic abbey, a Turkish Tent and Chinese bridges are only some of them. Perhaps the most wondrous creation is the grotto. This was badly damaged during war time billeting.

The main room of the grotto by the lake is some 40 feet across with side chambers and passages. Because there are several large openings to the lake the sun is reflected from the water to the roofs of the rooms so that they sparkle from the minerals and crystal in artificial stalactites. The grotto was designed by Hamilton himself and built by the famous grotto builder, Joseph Lane of Tisbury, who also built grottoes at Fonthill and Bowood. The grotto island at Painshill has been successfully excavated

Hamilton was as interested in horticulture as design and he successfully produced a sparkling white wine at Painshill—apparently so good that a *visiting Frenchman believed it* to be champaign.

Painshill is a model of constructive conservation work. It is supported by the National Heritage Memorial Fund and other trusts but there is a vital need for money to continue the work and the future maintenance of the park. It seems *to me such a successful project* that it deserves all the support it can get.

Guided walks are arranged for parties during the process of restoration and there are certain days when parties can book a visit. Wednesday afternoon tours begin for the public at 2 pm promptly. Details should be checked by writing or telephoning The Painshill Project Office, Sandown House, 1, High Street, Esher, Surrey, KT10 9RR. Tel: Esher 62111.

Higher standard than ever at Carl Flesch competition

Above a certain level, as everyone knows, just as there are no better composers, only different ones, so there are no better performers, only different ones (was Sarasate a "better" violinist than Mischa Elman, Kreisler better than Hubermann, Heifetz better than Menuhin?). Great art is not about ranking or scoring: yet it's the invidious duty which faces the jury of every music competition not only to discard (often with sincere regret) bright young talent, in round after round as the competition progresses, but actually to rank the cream of that talent after the final test in numerical order—as if music-making were no more than a matter of fulfilling a specified task, scoring points, getting the answers right.

Yet however unrealistic and unyielding their basic premise, competitions are evidently here to stay. The public likes them —they can be fascinating and rewarding, at least in the final stages, to attend. Aspiring young performers like them—for the ordeal, gruelling as it is, can be salutory, and competitions do undoubtedly provide a useful launching pad for brilliant young talent which might otherwise take far longer to make itself known. And not all is necessarily points and scoring: the biennial Carl Flesch International Violin Competition, whose final concerto rounds were played at the Barbican last week, devotes a substantial portion of its timetable to sessions for all competitors who have not been elected to the final stage to meet the jury individually and discuss with them their performances, studies and careers.

The six chosen finalists played two concertos each: any Mozart concerto on Tuesday, with the London Mozart Players under Jane Glover; then a major warhorse from the 19th-century repertory on Wednesday or Thursday. All six, it might be assumed after a process of such rigorous elimination, would be young violinists of unusual distinction—and indeed this year the list was of consistently higher quality than that of any previous Carl Flesch competition that I can remember. But the more successful a competition is in attracting entrants of high calibre, the more problematic the question: how to distinguish, objectively and fairly, between good, better and best?

What criteria, after all, to employ? If the Carl Flesch medal were to be awarded for beauty of sound alone, then there is no doubt that my vote would have gone to the remarkable 23-year-old Chinese violinist Xue Wei, whose tone-colour in the slow movement of the *Chaikovsky concerto* was the most ravishing we heard during any of the three evenings. His energy, rhythmic punch and general technical command were remarkable too; but then so were the extraordinary poise and ability to stay cool under stress of the 18-year-old Japanese Mieko Kanno; the genial confidence of 21-year-old Anthony Marwood; the authority and firm control of the East German Birgit Jahn; the easy (but less disarming) efficiency of the Hungarian Attila Falvay; the to my mind quite outstanding, originality and individuality of the youngest finalist, Isabelle Bonesire from Belgium.

One couldn't quarrel with the jury's decision to award first prize to Xue Wei. His Chaikovsky was imperturbable, impeccable of intonation and phrase, alivev with energy: if he is able to venture a little farther out of his superbly polished shell as he matures, he will go a long way. I wasn't nearly as moved, or as surprise, by his playing, however, as I was by the wonderful Stravinsky concerto of Mieko Kanno—who survived quite unscathed an amazing ragbag of a performance by the RPO under James Loughran. Or by the Mendelssohn concerto of Isabelle Bonesire—flawed certainly, but of irresistible lyrical presence, deeply personal, a *strange, wistful, almost tragic* reading which spoke straight to the heart. Birgit Jahn's Beethoven concerto, by contrast, I found very well made and correct, but a shade prosaic: her second prize, to Mieko Kanno's third, surprised me. Anthony Marwood was placed fourth, Attila Falvay fifth, and Isabelle *Bonesire sixth.*

A last word of praise for the non-voting chairman of the jury, Albert Frost, whose introductory preamble to the prize-giving before the winning order was announced was a model of concision, good humour and—above all—brevity.

Dominic Gill

Cabaret/Strand

Michael Coveney

"Divine decadence" was the old advertising slogan for this splendid musical in the mid-1960s and the great virtue of Gillian Lynne's revival is that it wallows in the 1930 Berlin cabaret ambience while still coming across as a pungent show with several points to make.

The first and most powerful impression is of a city, about to disappear under the jackboot, where people have to make important personal decisions: *Sally Bowles hovers* between the transvestite security of the Kit Kat Club and escape with Cliff Bradshaw, the English teacher and writer loosely based on Christopher Isherwood; falls foul of the Nazis for whom he has been running errands; and the old landlady Fraulein Schneider will not, *after all, marry the Jewish* fruiterer Herr Schultz.

If anything underlines the musical's lack of sentimentality it is that moment, shortly followed by Wayne Sleep's ironic number with a female gorilla ("*If you could see her* through my eyes, she wouldn't seem Jewish at all"). Mr Sleep then proceeds to a "Sieg heil" tap routine—an innovation—and a chilling "Auf wiedersehn" as red Nuremberg banners unfurl from the flies.

The music of John Kander and lyrics of Fred Ebb have *stood up well to the tests of* time (no, not *Time*), Sondheim and Lloyd Webber. Above all Joe Masteroff's book, cunningly crafted from the van Druten play and Isherwood's Berlin stories, could serve as a model *for budding librettists. Even* the snazzily hectic "Money" song and the Jewish ugly duckling item "Meeskite," which I remember as highlights, are revealed in proper dramatic contexts.

On the vast Palace stage 20 years ago, some of the domestic scenes dwindled. But thanks to *Mark Thompson's marvellous* design of an Expressionist box, effortlessly changing from club to lodgings and peopled with great lolling mannequins to complement the Georg Grosz-like wall caricatures, the emcee's claim that the Berlin maelstrom will change your life by seeping straight through it *is incontestable.*

Mr Sleep may lack the leering venom and bilious snap of Joel Grey and Barry Dennen, but his sidling air of a corrupt minor exerts an insidious charm and, much more so than either of his distinguished predecessors, he *palpably comes from the world* he despises. He springs from the seething, swaying chorus and *proceeds to turn a blind* eye, but only after first taking a good look with the other one.

Thus we have Mr Sleep in black leather lederhosen for the frisky troilism song "Two Ladies," and spinning out of the high kicking, goose-stepping line once the club has been taken over by the Gestapo. *None of this. I am relieved to* report, smacks of Nazi chic: instead, Miss Lynne's superbly vital and inventive choreography rings witty variations on the jackboot idiom, moulding the company into an organic machine of finally evil propensity.

Kelly Hunter's Sally is more *a schoolgirl on the skids than* the gin-sodden lyrical croaker of Judi Dench. Nor does she have the exhausting freneticism of Liza Minnelli in the film, which is why "Maybe This Time," a grindingly banal Minnelli vehicle, is a mistake. Otherwise, Miss Hunter is fine, falling on Peter Land's very well sung, and very tall, Cliff with the relief of a middle-class tearaway finding a fellow sinner.

The new orchestrations of Chris Walker are outstanding, and the orchestra, under Ray *Cook's impeccable* musical direction, create an authentic Berlin sound at once wheezy and piquant.

Alastair Muir

Wayne Sleep

Prom First Night/Albert Hall

Dominic Gill

The First Night of the new *Prom season on Friday* was one of the few Prom programmes this year whose essential flavour will have been missed by radio listeners and TV viewers (the concert was broadcast live on three channels, including the World Service)—*since* of all Mahler symphonies, the Eighth places the greatest weight on gesture and manner, and the least on grammer and syntax. The tone of voice, and the sheer physical impact, of the music are paramount; its contrapuntal detail and the finer nuances of colouring and tex*ture are important but secon*dary concerns. The very sonority and presence of a full-sized performance of the "Symphony of a Thousand" in a full-sized hall is its principal quality—and chief excitement.

On the face of it, Lorin Maazel, who notably relishes the large-scale and the grandly *arresting gesture, should be the* ideal conductor for a sensational performance of the Eighth. And indeed in its opening pages on Friday he drew a sonority of impressive breadth and weight from the BBC Symphony Orchestra and the four massed choirs gathered in serried ranks behind and above it (the BBC, LPO and LSO Choruses in their entirety were joined for the occasion by the Tiffinsy School Boys' Choir). *But for some reason, in the first* movement at least, the impetus flagged a degree or two—a matter of rhythmic energy, of rhythmic cut and thrust, rather than dynamic or tempo.

Tempi, it is true, were generally slow: but what seemed by and large an overburdening of the music's movement in the *opening "Veni, creator spiritus"* gave way to a tread of slow and magically buoyant purpose in the finale. The orchestral introduction to the Faustian scene—mountain gorges, forest, rock and wilderness—was beauti*fully gauged and sustained*; and the following sequence of vocal and instrumental commentary built surely and without interruption (the common tendency is to pre-empt the effect) to a splendid and authentically overwhelming climax.

The team of eight soloists was mainly very good. Only the *first soprano Johanna Meier* was disappointing, shrill and forced in her highest registers; the second, Elizabeth Connell, gathered together her Gretchen songs with bright, burnished tone and impressive conviction. *Linda Finnie, offstage, was a* fine, invisibly floating Mater Gloriosa. Reiner Goldberg, Bernd Weikl and Kurt Rydl, tenor, baritone and bass, made a strong team.

James King/Wigmore Hall

Richard Fairman

The US has built up a solid tradition in producing dramatic tenors. Since the war they have kept up a continual presence in the major opera houses with artists like Richard Tucker and James McCracken—a line to which James King's virile singing in this Wigmore Hall recital on Thursday firmly and proudly belonged.

Brash and forceful, the voice demands a hearing: as with both Tucker and McCracken, the tone seems to be produced with a great push of tension from the throat, creating a sound that is *rarely relaxed, free or beautiful.* It is not a style of singing that is well suited to the smaller scale of the recital platform. But King had chosen this programme carefully, preferring composers that he sings with notable success in the opera house.

At Covent Garden he is currently a powerful Florestan in *Fidelio*. Here he began with a group of songs by Beethoven and brought to them a similar brand of heroic strength. From the tragic darkness of "Vom Tode" to the glory of "Die Ehre Gottes aus der Natur," *these songs to poems by Gellert* follow a similar path to *Fidelio*, allowing the singer a chance to sing out at full throttle in the triumphant C major conclusion.

It was not easy for the pianist, Paul Wynne Griffiths, to keep up with a flood of sound like this. The limitations of such an approach come in music where sheer climactic power is not enough. A couple of the American songs came across with real affection. But even in the songs by Schubert it was, ultimately, the release of power at the big moment that seemed to be the tenor's prime enjoyment in singing them.

Enjoy them, however, he genuinely does. At over 60, he is still in fine vocal fettle and able to set the roof ringing. An excerpt from Wagner's *Rienzi*, dramatic and exciting, showed what he can still do and made a fine end to the programme.

Carnival designs at Riverside

THE INNOVATIVE carnival designer, Peter Minshall of Trinidad, is bringing some of his costumes to Riverside Studios on August 16 for eight days as part of a celebration of Caribbean fortnight.

The exhibition of 30 costumes recently exhibited at the Arnolfini, Bristol, are Mr Minshall's attempt to develop the roots of Mas'—Trinidad's street carnival—by creating costumes that have been described as "kinetic sculpture." The core of the exhibition are The Bird of Paradise and Callaloo. The Bird of Paradise features over 100 stylized feathers from five to 14 feet in length.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

Music

July 18-24

BRUSSELS

Royal Protestant Chapel (5123030). *Marcel Ancion, clarinet and Daniel* Blumenthal, piano. Mendelssohn, Schumann, Weber. (Tue).

PARIS

Yvan Chiffoleau, cello. Frederic *Aguessy*, piano: Beethoven, Bach, Brahms (Mon 7pm). Auditorium des Halles, 5 Porte Saint-Eustache.

Veronique Boys, piano: Mozart, Chopin, Liszt, Schumann (Tue 6.30pm) Auditorium des Halles.

Groupe Vocal de France conducted by Michel Tranchant: M. Ohana, Bayer, Xenakis, Quatuor Via Nova: M. Ohana, Ravel, Beethoven (Wed 8.30pm) Auditorium des Halles. All these concerts are part of the Paris Festival Estival (47649080). Taped information in English around the clock.

LONDON

John Vallier, piano. Schumann, Chopin and Liszt, in the presence of the Queen Mother. Royal Festival Hall (Tue).

National Opera Orchestra of Warsaw, Malcolm Sargent Festival Choir and Philadelphia Choral Arts Society conducted by Robert Satanowski, Vaughan Williams and Beethoven. Royal Festival Hall (Wed).

VIENNA

Osaka Junior Baroque ensemble from Japan. Vivaldi, Mozart and Japanese composers. Palffy Palace (525681). (Mon).

Prague Symphony Orchestra conducted by Jiri Belohlavek with Mirka Pokorna, piano. Janacek, Bohac, Dvorak. Arkadenhof (42800/2085). (Tue).

Seoul Chamber Orchestra conducted by Yong-Yun Kim. Mozart, Elgar, Respighi, Grieg, Schönbrunn Palace (42800/2085). (Wed).

Prague Symphony Orchestra conducted by Guenther Neuhold with Joerg Demus, piano. Schumann, Ravel, de Falla. Arkadenhof. (Thur).

NEW YORK

New York Philharmonic: Free concert of works by Weber, Liszt and Brahms conducted by Gunther Herbig and James Conlon will be performed in Cunningham Park, Queens (Tue) and Van Cortland Park, the Bronx (Wed).

Mostly Mozart Festival (Avery Fisher Hall): The Cleveland Quartet, Jean-Bernard Pommier piano, Walter Trampler viola. Haydn, Mozart (Mon); Festival Orchestra, Edo de Waart conducting, Jean-Bernard Pommier piano, Cho-Liang Lin violin. All-Mozart programme (Tue, Wed); Beaux Arts Trio, Mozart, Mendelssohn, Beethoven (Thur). Lincoln Center (8742424).

WASHINGTON

Summer Festival (Concert Hall): Highlighted by a visit from the Newport *Folk Festival in August, this summer-long string of popular singers* and musicians includes recital performance Neil Sedaka, Shirley Bassey, Dionne Warwick and Petula Clark. Ends Aug 27.

CHICAGO

Ravinia Festival: The 51st season, honouring Mozart on the 230th anniversary of his birth and Liszt on the 100th anniversary of his death, continues with Marilyn Horne recital. Vivaldi, Handel, Wolf, Mahler, Barber, Tosti, Donaudy, Verdi, Respighi, Arditi (Tue); Ella Fitzgerald with Milt Jackson and Ray Brown Quartet (Wed); Chicago Symphony conducted by Michael Tilson Thomas with Ilana Vered piano. Beethoven, Schubert, Mahler (Thur). Highland Park. (728 4642).

TOKYO

Yuzuko Horigome (violin) accompanied by Yasuo Watanabe (piano). Bach, Beethoven, Bartok. Tokyo Summer Festival. Sogetsu Hall, in Tange-designed building, and perfect for chamber music. Aoyama 1-chome. (Mon) (237 9990; 980 6060).

Stanislav Bunin (piano): Prokofiev, Chopin. Showa Women's College, Hitomi Memorial Hall, Sangenjaya (Tue) (237 9990; 980 6060). Tokyo Summer Festival.

Yumiko Sakuma (flute), Naoko Yoshino (harp): Ibert, Fauré, Glinka, Berio, J. S. Bach, Schaposchnikov. Young musicians taking part in Tokyo Summer Festival. Sogetsu Hall (Thur) (237 9990; 980 6060).

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Monday July 21 1986

West Germany disappoints

ALL OVER the world governments, investors and businessmen are being forced to reconsider their expectations for 1986 as a vintage year of economic performance. As usual, it is the soulsearching in *Washington and on Wall Street* that is catching the international limelight. However, the disappointments in the US are actually less surprising — and in some ways less significant from an international standpoint — than the distressingly weak performance of West Germany.

Everything this year appeared to be working in the Germans' *favour. And hopes were high* that after five years of painful "structural adjustment," their country would at last be ready to regain the position of economic leadership it occupied so frequently until its growth rate collapsed in the 1980s.

Yet, half way into 1986 it is becoming increasingly clear to most independent analysts, if not to the Bonn Government itself, that Germany is failing to respond to the expected opportunities from cheaper oil, *steady economic policies, low* interest rates and zero inflation. The fact that the German economy seems unlikely to grow by more than 3 per cent in what should have been a banner year of powerful expansion, raises disquieting questions, not only for the Germans but also for the rest of the world.

The Germans sometimes *appear to resent outside interest* in their domestic economic policies, but there are at least two reasons why the world is bound to feel concerned about the German economy's performance. Firstly, as the pivot for the European Monetary System, the German economy tends to set the pace for sustainable growth in the whole of Europe, *which is the largest trading* and industrial bloc in the world.

Best experiment

Even more fundamentally, Germany has in the past few years proceeded more system*matically than any other* country to implement disinflationary medium-term adjustments which have come to dominate official macroeconomic thinking throughout the world. The German authorities have succeeded in cutting budget deficits, have stuck to their monetary targets, have conquered inflation, have greatly *increased their economy's* international competitiveness and have cut government spending as a proportion of GNP to its pre-1973 level.

Germany, in other words, constitutes the best controlled experiment that is ever likely to be held for the policy of "fiscal consolidation within a medium-term framework" which has been forcefully advocated (although not always practised) *by most of the governments* of the industrialised world.

Does Germany have enough to show for this policy, after *four years of stringent application?* Unless Germany's economic growth accelerates unexpectedly, this question will be asked with growing urgency in the coming months as political pressure for more expansionary policies mounts from the US.

Weak demand

The OECD attempts some tentative answers in its annual report on the German economy, which was published last week. It generally commends the Germans' monetary and fiscal policies but criticises the *Government for the* micro-economic part of its agenda. The Government's commitment has been distinctly half-hearted when it has come to *deregulating* transport and communications and curbing subsidies for uncompetitive industries such as agriculture and coal mining. In the labour market, the OECD concedes that wage rises have moderated and that profits have been boosted impressively, back to the levels of the 1960s as a share of national income, but it insists that labour market inflexibility remains the major cause of German unemployment. There is much to be said *for these and other "supply side"* criticisms of micro-economic policy in Germany and most other European countries. However, as complete explanations of Germany's disappointing performance, such arguments are unconvincing.

Germany's huge current account surpluses are prima facie evidence that its industry *is highly competitive* and that a part at least of its poor performance is attributable to weak domestic demand—just as a current account deficit *is fundamental evidence* that a nation is consuming more than it produces, a large surplus indicates that the country can afford to consume and invest a good deal more of what it produces. The fact that total domestic demand in Germany was actually marginally lower in real terms in the first quarter *of 1986 than* it was in 1980 goes a long way to explain the disappointments of Germany's economic performance—and the *pressure which is likely to grow* from its trading partners.

Watchdogs to bark in tune

THE internationalisation of the securities markets has inevitably created a need for co-ordination between securities watchdogs around the world. What has been missing, until recently, is an appropriate forum in which to do the job and a sense of impetus.

Now, however, the collaborative bandwagon is beginning to roll; and not solely under Anglo-American prompting. Last week Mr John Shad, chairman of the US Securities and Exchange Commission, revealed that the US was close to concluding a series of bilateral agreements on securities fraud with Japan and France, as well as Britain. Other European countries may follow.

Mr Shad chose to make his remarks at the annual meeting in Paris of the International Association of Securities Commissions, which has recently *transformed itself from an* American talk shop into an embryonic global securities organisation.

These developments are welcome. In the past, the SEC's zealous attempts to pursue questionable dealings by American fraudsters across national boundaries have raised awkward questions about the extra-territorial reach of US laws and regulations. International agreement on the exchange of information and the circumstances (if any) in which witnesses could be subject to subpoena, or documents seized, could re*duce the scope for tension.*

An abrupt end

Yet it would be unwise to expect the process to bring instant results. International investigations into insider dealing have a way of *coming to an* abrupt end in places such as Switzerland, Luxembourg, the Bahamas or the Cayman Islands none of which is rushing to collaborate. In Europe, attitudes to insider trading are less heated than in the US.

These different attitudes have been reflected in a lack of severity in penalties handed out by the courts. The French securities watchdog, the Commission des Opérations de Bourse, was recently taken aback by the lightness of the sentences in two cut-and-dried insider dealing cases which would have caused a furore had they taken place and been discovered on Wall Street.

It is important that the collaborative agenda should not be monopolised by an SEC that has the bit between its teeth on insider trading after some recent coups. There are wider questions to be addressed about the stability of the capital markets, of the kind that have long preoccupied central bankers.

Co-ordination in banking supervision has a long track record because banking started to become international more than a quarter of a century ago. *Its focus was not simply* to look for the rotten apples in the barrel but to protect the international financial system from destabilising shocks.

In the 1980s borrowers are increasingly by-passing the banking system and going direct to investors; *instead of* raising a loan they issue an IOU in the process that has come to be known as securitisation. Investment banks and securities houses are thus grabbing more of the business; and while they are not vulnerable to a run on deposits, since they have none, they can still administer shocks to the system *if they make losses on securities trading.* If a firm goes bankrupt the losses spread to its counterparties and the whole system may be put at risk.

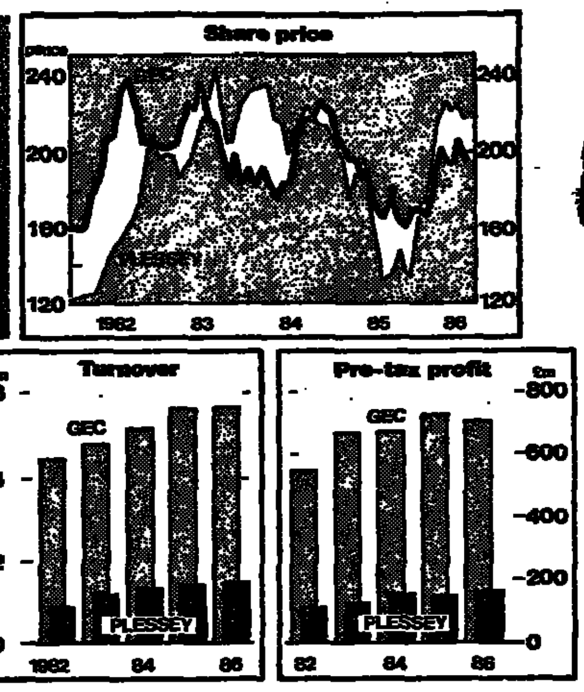
The combination of securitisation and the internationalisation of capital markets suggests that the securities watchdogs should now be addressing this systemic problem. It may not be long before they face the international equivalent of, say, the collapse of Drysdale Securities in the US government bond market.

In such circumstances it will not be sufficient to look at domestic capital ratios. A host of questions needs to be addressed about how far parent companies should stand behind foreign subsidiaries and whether central bank lenders of last resort facilities could or should be extended to investment banks and securities houses. It is a measure of the risks involved that we are still at the stage of raising questions instead of discussing solutions.

GEC's bid for Plessey

Everything to play for

By Guy de Jonquieres



Leighton Morris

IN THE next few weeks, possibly even before Parliament is due to break for its summer recess on Friday, the Government faces a decision which could set the stage for the most far-reaching reorganisation of Britain's electronics industry for more than a decade.

By now Mr Paul Channon, the Trade and Industry Secretary, should have received the keenly awaited report by the Monopolies and Mergers Commission on the proposed takeover by the General Electric Company, Britain's largest manufacturing group, of Plessey, its biggest UK rival in telecommunications and defence electronics.

If the Commission approves the bid, the Government must accept its verdict. But if the report is negative or attaches conditions, Mr Channon will have to make a delicate choice between two divergent objectives of government industrial policy, each of which is championed with enthusiasm in different parts of Whitehall.

In a nutshell, should he give the priority to maintaining competition in the domestic market by blocking a takeover? Or should he open the way for a rationalisation of the fragmented UK industry, in the hope that this would equip it better to compete in world markets which increasingly demand sizeable economies of scale?

For Mr James Prior, GEC's chairman and a former cabinet minister, the answer is clear. "Britain has a very important decision to take," he says. "If it doesn't accept that there have to be a few large companies able to compete internationally, then there will be an inevitable decline in our manufacturing capacity."

But over at Plessey, the opposite case is argued with equal fervour by Sir John Clark, its chairman. "We don't need GEC and we don't need to become part of a conglomerate," he says. He insists, too, that the national interest would not be served by a merger which led to an unhealthy concentration of high-technology resources in a single, dominant group.

Mr Channon will, of course, be obliged to bring to his decision a quasi-judicial impartiality. However, officials within his own department have long favoured a consolidation of the electronics industry, which would enable it to negotiate wider international link-ups from a position of strength.

Ranged squarely against this line, though, is the Ministry of Defence, the country's largest purchaser of electronics equipment. It fears a merger would frustrate its attempts to sharpen up procurement by stimulating greater competition between its UK suppliers. GEC and Plessey together account for about two-thirds of UK defence electronics spending and in one category, air defence radar, control almost 80 per cent of Britain's production.

Their strengths in radar are largely complementary and would, if combined, create a wide product range. However, the MoD appears unmoved by arguments that a merger would produce an internationally more competitive group enjoying improved efficiencies which would yield cost savings on UK contracts.

By contrast, British Telecom, also a major customer, sees much virtue in an amalgamation of the two companies' production of System X public digital telephone exchanges, which BT has paid more than £350m to develop.

At present, GEC and Plessey compete for BT System X orders. But the arrangements are awkward, since the two companies also collaborate on technical development of the exchange and rely extensively on each other to supply vital components and design information.

The need to keep production separate has greatly diminished in BT's view, since it decided last year to expand competition by ordering AXE digital exchanges from Thorn Ericsson, a joint UK subsidiary of Thorn EMI and Sweden's L.M. Ericsson.

Much the most compelling reason for amalgamating the System X businesses, however, is the brutal economics of public exchange production. The need to spend as much as $1bn on initial development and a further $100m or so annually to keep the exchanges up to date has made it imperative to obtain maximum economies of scale in both manufacturing and marketing.

These pressures have already driven several major international competitors out of the business or into each others' arms. Last week GTE, the second largest US telephone company, agreed to pool its overseas equipment operations in a joint venture with West Germany's Siemens. That follows closely the agreement by ITT of the US to turn its vast telecommunications equipment activities into a joint venture with France's Compagnie General d'Electricité.

Both GEC and Plessey accept in principle the logic of joining forces and have in the past year twice discussed proposals for putting System X operations together. However, the talks foundered on differences over the scope of a deal and the division of management control.

Even if these obstacles could be overcome, the combined System X businesses would still account for only 4 per cent of public exchange sales world-wide, with no significant customers outside the UK. "In world terms, it would be the equivalent of merging two third division football teams," according to one electronics industry executive.

Mr Derek Roberts, a deputy managing director of GEC, says that if a takeover of Plessey succeeded, System X's future could be secured only by forging alliances with other telecommunications manufacturers which would offer access to overseas markets.

However, finding suitable allies on GEC's terms might not prove easy. The company insists it is only interested in joint ventures in which it held a majority and has already turned down an offer of a 10-15 per cent stake in the planned ITT/CGE group. While GEC's ample cash resources of £1.5bn could provide a lure to prospective partners, System X's narrow UK market base offers little commercial leverage.

Whether GEC would proceed immediately with a takeover of Plessey even if it got the green light from the Government is, in any case, uncertain. Since GEC launched its now lapsed bid last December, at 160p per share, Plessey's share price has soared to close at 216p on Friday.

Lord Weinstock, GEC's managing director, claims that Plessey is over-valued at that level and points out that immediately before last December's bid, the company's share price stood at only 134p. If no rival suitors materialised, it could be to GEC's advantage to feign lack of interest in Plessey in the expectation that the latter's share price would fall back.

Whether such tactics would be effective is hotly debated in the City. Most analysts have been impressed by Plessey's energetic response to the threat of a GEC takeover and by the strong recovery in its pre-tax profits in the final quarter of its last financial year, which ended in March.

The company has injected fresh blood into its top management team, appointing Sir James Blyth, previously head of defence sales at the MoD, as managing director and recruiting Mr David Dea, a senior IBM marketing executive, to head its telecommunications business.

It has also conducted a vigorous public relations battle, inviting financial institutions and the Press to tour production facilities and meet key executives. Some City analysts who previously had little good to say about Plessey have suddenly grown almost lyrical about the discovery of its hidden technological strengths and "management in depth."

Many have also contrasted Plessey's recent form with the slowdown in GEC's performance. GEC reported a 3 per cent drop in pre-tax profits on flat turnover in the year ended March 31, following a disappointing 8 per cent drop in profits the previous year.

Though GEC has broken with tradition by appointing an outside PR firm and wheeling out top executives to present its last set of annual results, it concedes that it has been no match for Plessey's public relations effort. "We haven't been as good as we should have at telling the world about ourselves," Mr Prior says.

None the less, many analysts still have lingering doubts about Plessey's ability to maintain growth. Several were alarmed at the sharp drop in its order book at the end of last year and also question its longer-term prospects in telecommunications.

Plessey insists that if it could get full control of the System X programme, it could be *commercially* viable even without overseas orders. However, the company says that if it remained independent and the split production arrangements continued, it might be forced to run System X as a "milch cow" and use the profits to fund Stromberg-Carlson, its US subsidiary.

Stromberg, which is now breaking even after a £6m loss last year, has its own range of exchanges which it is seeking to sell to the US Bell regional *telephone companies. None* has placed any firm orders so far, though one, Bell South, has agreed to take a Stromberg exchange on trial.

How Plessey would react if GEC were allowed to proceed *with a takeover remains* unclear. Sir John Clark will not be drawn on suggestions in the City that it might seek to pre-empt a bid by negotiating a defensive merger with Ferranti, Britain's third largest defence electronics contractor. Such a move might, in turn, prompt a further chain of industry realignments.

As far as GEC is concerned, the biggest question is what will happen if it is denied the chance to renew its takeover bid. After an unbroken string of annual profit increases right through the 1970s, its disappointing financial results during the past three years have led many City analysts to conclude that it was losing momentum *and direction.*

Its most impressive strengths remain in heavy engineering and UK defence contracting. They are not matched, however, by its position in commercial information technology markets, which have provided the electronics industry's fastest growth in recent years. In microchips, computers, office systems and *telecommunications equipment* it is at best no more than a marginal player on world markets.

Mr Prior goes a good way to accepting the argument that GEC's ability to resume a growth path depends heavily on its ability to make acquisitions. Noting that its successful takeovers of AEI and English Elec*tric in the 1960s contributed* much to its dazzling performance in the 1970s, he says: "That strengthens the case for a Plessey takeover."

In that sense, at least, GEC needs Plessey a good deal more than Plessey thinks it needs GEC. If Lord Weinstock's hopes of renewing last December's bid were thwarted, GEC's *commercial self-interest* could lead it to look for an alternative prey. One way or another, the summer may continue long and hot for Britain's electronics industry.

TURNOVER by sector

	£ million
PLESSEY	1986
Telecommunications	662.4
Electronic systems and equipment	518.8
Aerospace engineering	138.7
Microelectronics and components	141.3
Computer peripherals	34.3
Less inter company content	35.4
	1,461.1
GEC	
Electric systems & Components	1,328
Telecommunications & Bus. Sys.	782
Automation & Control	475
Medical Equipment	429
Power Generation	665
Electrical Equipment	799
Consumer Products	391
Distribution & Trading	210
Other Activities	92
	5,662

Breaking into the top 50

In some ways the latest Fortune magazine list of the world's top 50 industrial corporations looks familiar. General Motors is back on top after a few years' eclipse, and Exxon is number two, its sales of $86.7bn lagging the auto group's by almost $10bn. But in spite of the setback in the energy sector, the international oil companies remain dominant in the top ten, which also includes Ford, IBM (with sales of over $50bn for the first time) and AT & T.

Lower down the order, however, there are changes that show a crucial shift in global manufacturing—the appearance of two South Korean companies, Samsung and Hyundai, for the first time in the top 50. With sales of more than $14bn each, ranking them at number 42 and 44 (higher incidentally than the UK's ICI on $13.9bn) both of these companies have arrived in Fortune's top listing by means of electrifying growth.

Since 1980, sales of Samsung, a mainly electronics group, have increased by 274 per cent, and at Hyundai, a transportation specialist, they are up by 153 per cent in the same period.

Helped by their strong position in the US market, the big Japanese companies continue to present the strongest challenge to West Germany for the number two slot behind the US in the top 50. The US had 21 companies in the list last year *against six from* West Germany, five from Japan and four from the UK, two of which, Royal Dutch Shell and Unilever, are *half Dutch.*

But the prize for growth amid the top 50 went to Nestle of Switzerland, which increased sales by almost 36 per cent last year, leaping from number 49 to number 32 in the rankings. This was mainly because of Nestle's acquisition of Carnation, the US foods company.

Outside the top 50, the American strategy worked equally sweetly for Hanson Trust, the UK-based industrial *conglomerate*, which has *grown* virtually step by step in the US and UK in recent years.

Placed at 174 in world rankings, Hanson is credited by Fortune with generating the best total return to investors over the past five years. Calculated on the basis of both stock appreciation and dividends, Hanson has returned 136 per cent annually, compounded, says Fortune.

"I suppose there's no chance of New Zealand suddenly boycotting the Tests?"

Men and Matters

Twinkletoes

Robert Maxwell was being shy and retiring again. "I'm an expansionist; everything I touch grows; I'm a winner," he said on board his new top-of-range executive jet.

Maxwell has certainly managed to expand the money available to run the Commonwealth Games which open in Edinburgh on Thursday.

The Games' heavyweight chairman, who says his only exercise in recent years has been winding his watch, probably deserves a gold medal for his marathon efforts to keep the Games financially secure. But all his political and diplo*matic contacts have not* been enough to stop the trickle of Third World nations planning to boycott Meadowbank turning into a flood.

Maxwell's campaign has been slowed up only slightly by a broken ankle suffered while helping a guest into the Mirror's helicopter on the way to the men's tennis final at *Wimbledon.* He still went on to the finals to bear the additional pain of watching fellow-Czech Ivan Lendl lose to Boris Becker.

But at least he has won a compliment from royalty. Princess Alexandra, who cancelled another engagement to attend last week's charity lunch for the Games at London's Savoy Hotel, took one look at Maxwell in his plaster cast and said: "Hasn't he got terribly nice toes. Not *many could stand that sort of* public exposure."

The City sound

London's Bow Bells, "the most famous peal in all Christendom," silent for the past year while tower of St Mary le-Bow in Cheapside was shrouded in scaffolding for repairs, has been *ringing out* joyfully again. Tonight's special peal will celebrate the induction of the lively new Rector, Victor Stock, a former chaplain at the University of London.

Stock comes to Bow from a parish in Friern Barnet, Herts, in Mrs Thatcher's constituency. "No one walks past the rectory between 8 am and 6 pm—they're *always hurtling past the door* of St Mary's," he says cheerfully. "But Sir Christopher Wren used the very latest in architec*tural sophistication* to entice the merchants from their 'busyness' to the works of God. So we've got a lot going for us here."

Among the congregation at 6 o'clock tonight will be the Rector of Trinity Church on New York's Wall Street, St Mary's "sister" church. Will the sound of the peal, which *once defined the limits of the* City—and was used as a recognition signal by the BBC in World War Two associating the bells with freedom—include the merchants of Wall Street? Well, as they say: "I do not know, said the great bell of Bow."

Pooh Corner

Coinciding with the 60th birthday of that most famous of bears, *Winnie the Pooh*, the tough gun-toting cops of Boulder, Colorado and Morgan Hill, California, have added teddy bears to their armoury, I hear.

While the furry creatures may yet prove useful *in* persuading hardened criminals to surrender, they are principally intended to comfort and relax frightened children who may be potential witnesses to crimes.

No slouch when it comes to promotional opportunities, Atari, the computer company, has donated 50 bears to the cause and a similar number has been presented by Burger King. The views of Christopher Robin are not known.

Shorter talk

"The real Ronald Reagan," is the title of a talk advertised at a Sussex club. To this someone has added: "Beware of limitations."

Observer

BASE LENDING RATES

	%		%
ABN Bank	10	Equatorial Tst Corp. plc	10
Allied Arab Bank Ltd	10	Exeter Trust Ltd.	10½
Allied Dunbar & Co	10	Financial & Gen. Sec	10
Allied Irish Bank	10	First Nat. Fin. Corp	11
American Express Bk	10	First Nat. Sec. Ltd	11
Amro Bank	10	● Robert Fleming & Co	10
Henry Ansbacher	10	Robert Fraser & Ptrs	11
Associates Cap Corp	10	Grindlays Bank	‡10
Banco de Bilbao	10	● Guinness Mahon	10
Bank Hapoalim	10	● Hambros Bank	10
Bank Leumi (UK)	10	Heritable & Gen. Trust	10
Bank Credit & Comm	10	● Hill Samuel	§10
Bank of Cyprus	10	C. Hoare & Co	10
Bank of Ireland	10	Hongkong & Shanghai	10
Bank of India	10	Knowsley & Co. Ltd	10½
Bank of Scotland	10	Lloyds Bank	10
Banque Belge Ltd	10	Mase Westpac Ltd	10
Barclays Bank	10	Meghraj & Sons Ltd	10
Benchmark Trust Ltd	10	Midland Bank	10
Beneficial Trust Ltd	11	● Morgan Grenfell	10
Brit. Bk. of Mid. East	10	Mount Credit Corp. Ltd	10
● Brown Shipley	10	National Bk. of Kuwait	10
CL Bank Nederland	10	National Girobank	10
Canada Permanent	10	National Westminster	10
Cayzer Ltd	10	Northern Bank Ltd	10
Cedar Holdings	11	Norwich Gen. Trust	10
● Charterhouse Bank	10	PK Finans. Intl (UK)	10½
Citibank NA	10	Provincial Trust Ltd	11
Citibank Savings	¶10¾	R. Raphael & Sons	10
City Merchants Bank	10	Roxburghe Guarantee	11
Clydesdale Bank	10	Royal Bank of Scotland	10
Comm. Bk. N. East	10	Royal Trust Co. Canada	10
Consolidated Credits	10	Standard Chartered	10
Continental Trust Ltd	10	Trustee Savings Bank	10
Co-operative Bank	*10	United Bank of Kuwait	10
The Cyprus Popular Bk	10	United Mizrahi Bank	10
Duncan Lawrie	10	Westpac Banking Corp	10
E. T. Trust	11	Whiteaway Laidlaw	10½
		Yorkshire Bank	10

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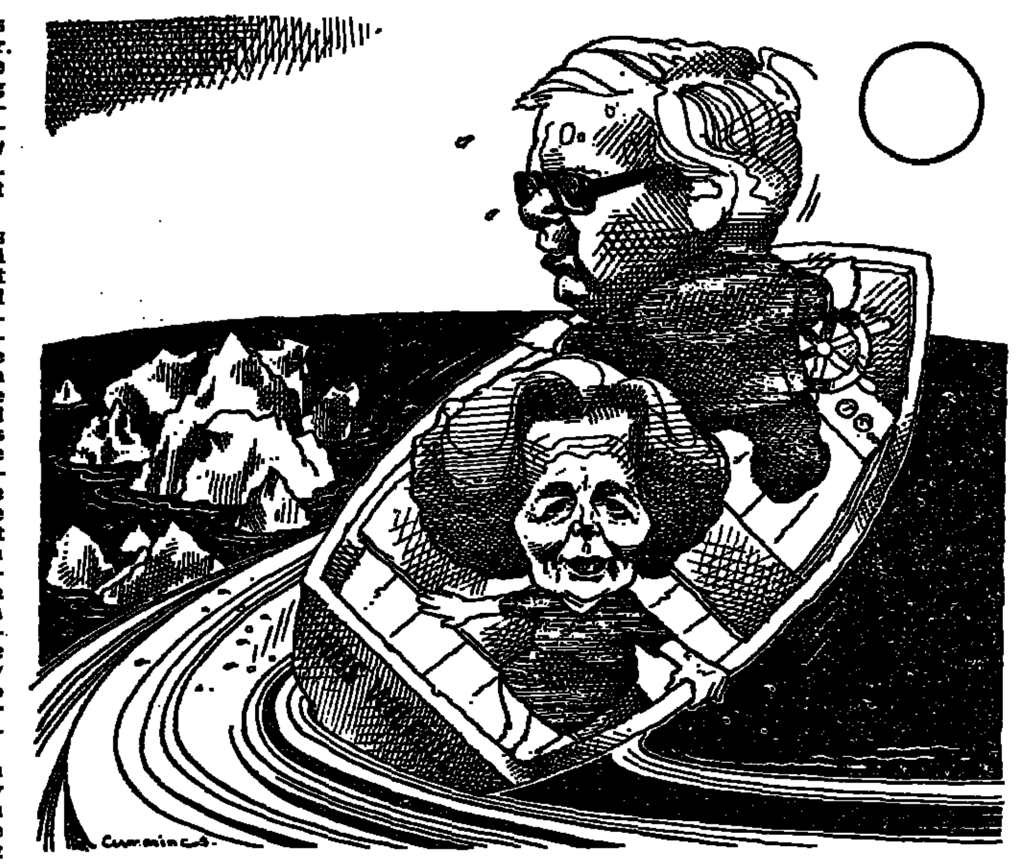
FOREIGN AFFAIRS: SOUTH AFRICA

Sir Geoffrey steers clear of the rocks

By Ian Davidson



AT LONG LAST, and after weeks of passionate procrastination over policy towards South Africa, the British Government has turned the ship of state onto a safer course. Until the Foreign Secretary started spinning the wheel last week, the looming prospect of international shipwreck had prompted great excitement in the watchers on the shore, furious denunciation from the rest of the fleet, and serious debate about the judgment or even the intentions of the captain. The vessel is still not out of danger, but at least it has a better than even chance of avoiding the clashing rocks.

When Sir Geoffrey Howe meets President P. W. Botha this week in South Africa, he will now be armed not just with his unquestioned personal sincerity, expressed in the barely audible murmer of official persuasion, but with the unmistakable threat of further sanctions. As he said in the House of Commons last week: "If the mission does not procure tangible and substantial progress, I would regard agreement on some further measures to be likely to be necessary." It is not exactly a commanding declaration of the new bearing, and many treacherous reefs still lie ahead; but at least the government is no longer claiming, in the face of the approaching rollers, that Mrs Thatcher's is the only compass which is not defective.

Mrs Thatcher's previous posture remains inexplicable. With ferocious intensity, she filled the newspaper pages and the television screens with denunciations of the immorality of *comprehensive* economic sanctions; *yet comprehensive economic* sanctions were not then, and are not now, on any relevant agenda. Labour Party spokesmen may be calling for mandatory, comprehensive sanctions, but that is just political hyperbole. In the real world, Mrs Thatcher's government faces very much more modest choices: an eight-point list of selective sanctions drawn up at last October's Commonwealth meeting at Nassau, and a four-point list of even more limited measures compiled at last month's European summit in The Hague.

Neither group is pressing the British Government to agree to comprehensive sanctions against South Africa. So why have we been treated to scare stories about the 120,000 jobs that would be lost in the UK if Britain cut off all trade with the Republic?

Last year Britain was South Africa's third trading partner, with exports of some £1,010m, or 1.3 per cent of total exports, and imports of £990m, or 1.2 per cent of total imports. An independent calculation of the effects of total sanctions, in which alternative markets would be found for only half the missing exports, suggests 70,000 lost *jobs over a four-year* period. But this extreme scenario is simply not being *considered: neither* the Commonwealth list nor the Community list proposes any new ban on exports to South Africa. It is a classic piece of Aunt Sally propaganda.

The Commonwealth list is obviously more extensive and intended to be more severe; but it also raises more awkward questions of definition, implementation, legality and backlash. *The air route* is profitable for British Airways, and in principle the cancellation of the air services agreement would require 12 months' notice. It is claimed in Whitehall that the termination of the double taxation agreement would help the South African Treasury. If the termination of "government assistance to . . . trade with South Africa" meant the closing of ECGD cover for British exports, that would be an unprecedented step in any conditions short of full economic sanctions, and might simply provoke the South Africans into rolling the trade debt into their on-going rescheduling negotiations.

The one item common to both lists is a proposed ban on new investment in South Africa. In the absence of British exchange controls, this must be difficult to police; even harder would be the extra Commonwealth stipulation of a ban on reinvestment of profits. Most difficult of all would be reconciling an investment ban, with the on-going negotiations on the rescheduling of South Africa's external bank debt. There must be a danger that it could be followed by a repudiation.

The bans on *imports* on specific categories of South African goods would be easier to handle, provided they were adopted by the Community as a whole, since the Community has responsibility for trade policy. At one point, it looked as though the 12 would follow the Commonwealth example and put a possible ban on imports of fruit and vegetables on its list. As far as Britain is concerned, this would be quite a severe sanction, since it took £136m worth of fruit and vegetables from South Africa last year, over 18 per cent of its total imports from the Republic.

In the event, the 12 opted for the more modest targets of iron and steel, and coal. In iron and steel, the Community took 10 per cent of South Africa's exports last year, with about 2.4 per cent coming to Britain at a value of £33m. In coal, the Community took over 60 per cent of South Africa's exports, but only a very small proportion of that came to Britain (£20m worth) and that was artificially boosted by the coal strike. The choice of these two categories would confine sanctions to products which are either in structural surplus in the Community (steel), or else freely replaceable from other sources (coal).

The British government has no guarantee, of course, that it can still get its way in limiting sanctions to some bare minimum. The weeks of passionate procrastination may have to be paid for, if Mrs Thatcher is to persuade the Commonwealth that she is sincerely opposed to apartheid and not a closet supporter of the Afrikaners. What might have been acceptable a month ago in the Hague may by now have become less acceptable.

What does seem unlikely, is that Sir Geoffrey Howe will be able to secure what was refused to the Eminent Persons Group earlier this year: the unconditional release of Nelson Mandela and other imprisoned black leaders, and unbanning of the African National Congress and other black opposition groups, and the start of negotiations for a new, non-racial government. The tone of recent declarations by President Botha and by his foreign minister, Mr Pik Botha, has been of truculent defiance of the rest of the world. A wholly implausible *Volte-face* will be needed in the next two weeks if sanctions are to be averted.

But if Pretoria refuses to comply, will it also go on to retaliate against sanctions, by taking counter-sanctions of its own? The most immediate targets here are the neighbouring states; Botswana, Mozambique and Zimbabwe are all heavily dependent on the dominant pull of South Africa, while Lesotho and Swaziland are in *addition completely or virtually* surrounded by South Africa. Pretoria has shown no scruple in reinforcing this dependence, by instigating the sabotage of *their* alternative transport links with the outside world, and it could inflict serious economic damage *if* it carried out the threat to repatriate all the migrant workers, who currently *number around 280,000*, or even 400,000 if the seasonal and illegal workers are *included*.

The South Africans could also, in theory, retaliate against the rest of the world, either by keeping out imports or by withholding exports of strategic *minerals*. *Some* import restrictions could be selective and narrowly targetted: Scotch *whisky, for example*, must have been a substantial proportion of Britain's exports of beverages *last year (£40m)*. But it would seem irrational to target the country which has been most *reluctant to impose sanctions* against South Africa; and any reprisals of this kind could *easily strengthen the international* sanctions lobby, and lead to a tit-for-tat whose end would be wholly unpredictable.

Export restrictions look an even more dubious proposition. Some people have argued that South Africa could hold the rest of the world to ransom by disrupting supply of key minerals of which it is a dominant producer: uranium, gold, vanadium, chromium, manganese, and the platinum group metals. These fears get virtually no support from a recent Fabian Society paper by Mr Peter Robbins, the well-known metals consultant.

● **Uranium:** world stocks are very high, production elsewhere is at least 20 per cent below capacity. "The world is less vulnerable to disruption of supply than it has been for two decades."

● **Gold:** South Africa's largest export item. "A cut in supply to the world would have almost no impact on industrial *activity*."

● **Vanadium:** "the combination of substitution with cheap molybdenum, stockpiles, and spare capacity would reduce short-term dependence on South Africa to negligible proportions.

● **Chromium:** there is a major surplus of all chromium products (the steel recession), with large production overcapacity and large stocks. Stainless steel producers depend on South African charge-chrome, but substitutes (nickel, titanium, molybdenum) are plentiful.

● **Manganese:** in very plentiful supply (the steel recession), production over-capacity, very large stocks.

● **Platinum group metals:** "present the greatest difficulties for consuming countries in the event of sanctions." Stocks probably stand at 3-4 months' world consumption; a higher price would make recycling economic.

However, any significant *resort to export* sanctions of this type would be at least as damaging to the South African economy as to the rest of the world. Minerals and precious stones account for well over half the Republic's total exports; to hold them back deliberately would ruin the balance of payments, and even a short-term cut-back would undermine South Africa's credibility as a long-term supplier. It seems much more *likely that South* Africa would resort to any subterfuge to maintain its *mineral exports in the face of* a disapproving world, as Rhodesia did with tobacco, than that it should cut off its nose to spite its face.

Moreover, for South Africa deliberately to go down the path of trade sanctions of its own, even for less strategically sensitive products, would imply a complete reversal of its traditional economic strategy, of trade and financial interdependence with the outside world. Psychologically, autarky may seem very appealing, and *it is impossible to discount* the possibility that the rhetoric of political crisis will drive Afri*kanerdom unconsciously in this* direction; but it is not a reliable recipe for South Africa's fundamental political and economic problems.

The traditional paradigm (before the recession) was: rapid economic growth to provide jobs for the growing black population; rapid growth required foreign investment; foreign investment required political stability and the repatriation of profits. No doubt a seige economy could survive; but in the medium term, it is the *growth of the black population*, which hangs like a guillotine over the viability of the white political regime. It would be very hard, perhaps impossible, to combine a capital-intensive strategy (to replace western imports and technology) with a labour-intensive strategy (to contain the problem of black unemployment).

The idea of a ban on foreign investment, mooted both by the Commonwealth and by the Community, is sometimes derided as an empty gesture. No foreign investment is currently flowing into South Africa, and none is likely to flow until peace is restored, so a ban would make no difference.

A less cynical judgment is possible, however; it is even arguable that such a ban would be the best possible form of sanction, combining the maximum of political signal with *the minimum of immediate* economic damage. For it would rule out any hope in Pretoria that rapid economic growth through foreign investment could be resumed by "peace" through repression; it would bring up front the central dilemma over long - term politico-economic strategy, and the choice between autarky and openness; and it might, but only might, cause President Botha to think very carefully about what he says to Sir Geoffrey Howe.

Many people have grave doubts whether sanctions can possibly "work," and their doubts are justified. Sanctions are uncertain in their effects, hard to control, hard to enforce, hard to fine-tune, and hard to connect with two sets of political dynamic, inside and outside the country. *If they have a* purpose, it is to remind the white South Africans of what they *already know*: they have no medium-term option except to negotiate with the blacks. The sooner they act on that knowledge, the better for them.

The Sanctions Menu

the Commonwealth version...

● A ban on air links with South Africa.
● A ban on new investment or reinvestment of profits earned in South Africa.
● A ban on the import of agricultural products from South Africa.
● The termination of double taxation agreements with South Africa.
● The termination of all government assistance to investment in, *and trade with, South Africa.*
● A ban on all government procurement in South Africa.
● A ban on government contracts with majority-owned South African companies.
● A ban on the promotion of tourism to South Africa.

...and the European Community version

● A ban on new investment in South Africa.
● A ban on imports of coal from South Africa.
● A ban on imports of iron and steel from South Africa.
● A ban on imports of Krugerrands from South Africa.

Letters to the Editor

Changing the rules

From O. Greene,

Sir, — As a distant but interested observer of the Guinness-Distillers battle and the wrangles over the composition of the Board, one cannot help wondering at the pretence being practised by a number of Mr Saunders' critics, politicians and City institutions alike.

The notion of any politician, Mr John Smith no exception, getting on a rostrum to complain of broken commitments is, given the history of the breed, *laughable. But it is incongruous* that games players in the City, acknowledged as knowing every trick in the book (and out of it) should get an attack of the jitters and side with the referee against their own team.

Throughout the bitterly fought battle between Guinness and Argyll and their respective City advisers, there were accusations in and out of court of bent and broken rules. One remembers the FT headline "Morgan Grenfell outflanks Bank" which was followed promptly by a change in the rules on share purchases. The fact of the matter is that rules get changed to meet changed circumstances and First Division games players know this.

No doubt there are good reasons why Mr Saunders abandoned his former stance on the Guinness Board structure. Perhaps he is concerned that the presence of representatives of the management of Distillers, the performance of which prompted the bid in the first place, will get in the way of achieving the results expected by the institutions which backed him. Whatever the situation, *surely the right of a* thinking person to change his mind on how a task can best be accomplished is not in question.

If it is concern about the fate of self regulation that is driving the City's reaction to Mr Saunders' plans (as Lionel Barber's article of July 17 implies), that is irrelevant to achieving an efficient management performance in Guinness. Let a spade be called a spade!

Oliver R. Greene,
Holton Hall,
Holton St Mary,
Colchester, Essex.

Representation and taxation

From Mr A. Reid

Sir, Mr Kirkby's assumptions (July 18) that "most" British citizens abroad accumulate overseas earnings and do so in places like Jersey are probably widely held in the UK. Even were these propositions true, and British citizens abroad paid no UK rates and taxes of any kind, the new voting right is only obtainable by those who have left the UK in the last five years, who can find a proxy they can trust, and who can *sign* a declaration that *they* do not intend to reside permanently outside the UK.

For British citizens resident in the UK, there is no requirement to sign a declaration of intent regarding future residence, nor is there any presumption that only those who have taxable earnings are entitled to vote. For those like Mr Kirkby who think that there should be such a link, it can be pointed out that the lists of overseas voters who have signed the declaration will doubtless assist the Inland Revenue in determining an overseas voter's tax domicile as being the UK.

Although there has been good publicity for the new measure, many British citizens abroad will be extremely disappointed when they discover how restricted the new right to vote is in practice.

A. A. Reid.
23 Square Ambriorix,
1040 Brussels.

Issuing practices in Euromarkets

From the Chief Executive,
ISRO (Formation)

Sir,—Clive Wolman's article of July 14 is ill-founded and highly objectionable in its implication that ISRO is condoning deceitful issuing practices in the Euromarkets.

His article states that "complaints about these malprac*tices, coupled with a request* for tighter regulation, have been made to the Bank of England by a handful of international banks . . ." The Bank has informed ISRO that it has *received no such approach.*

The International Primary Market Association, whose UK *members are generally* also ISRO members and which the article describes (incorrectly) as "the driving *force* behind ISRO," has condemned publicly on July 9 the practice of a *Eurobond lead-manager* inviting co-managers on the understanding that they will not re*tain a significant proportion of* their underwriting participation. The alleged malpractice *of Mr Wolman's article is* described in so unintelligible a fashion that ISRO cannot determine whether or not it is the practice condemned by IPMA. Mr Wolman's article does not mention IPMA's condemnation of this practice.

ISRO has made representations to the Department of Trade and Industry that the Financial Services Bill should be amended to permit the stabilisation, within regulations *of the Securities and Investments* Board, of the price of equity issues. The practice condemned by IPMA and the possibly different malpractice alleged to exist by Mr Wolman relate neither to equity issues nor to stabilisation. (Stabilisation of Eurobond issues is in any event permitted by the Bill).

Mr Wolman states that "Trade and Industry lawyers" say that equity stabilisation is, if properly disclosed, already permitted by the Bill. If this is so, it is surprising that the DTI should have taken the time to consider ISRO's repre*sentations that the Bill should* be amended to permit equity stabilisation and to discuss *ISRO's suggestions as to* how unsophisticated UK investors should be protected against its effects.

Mr Wolman did not get in touch with ISRO to verify his article before publication.

ISRO deplores this singular departure from your newspaper's usually high standards of reporting on the Euromarkets.

J. G. W. Agnew.
2nd Floor,
45 London Wall, EC2.

School meals in Bucks

From the Secretary,
National Association of School Meals Organisers

Sir,—The nation's Press seems to be sitting idly by and watching Buckinghamshire County Council disband its school meals service — taking away lunchtime meals from some *30,000* children and relegating its 8,000 children entitled to free meals to measly packed lunches from the authority.

Admittedly, it is the rightful province of the County Council to take the decision having conducted its own investigations — a convenient fact emphasised by the many prominent people whose support we have sought in trying to cause Buckinghamshire to think again before the decision becomes irrevocable on July 24. It will take effect on October 31 — only a few short months away.

We are talking about education, health (long and short term) and public order, all of which to some extent are being sacrificed in order to save about £2m which, it is said, will be spent on books and teaching. Fine, but what about the costs in social and economic terms which will have to be borne both *locally* and *nationally* as a result of this authority's short-sightedness? Surely the wider context of the risk to future generations of adults should be considered more seriously?

Let us see some examination of the issue in the Press, because, to be sure, Buckinghamshire will not be the last authority to go along this track, and it will be the most needy children who will have paid the price.

(Mrs) W. Izod.
191 Trinity Road, SW17.

Realign the digits

From Mr R. Carver

Sir, — Use of facsimile is *increasing, with considerable* benefit to national and international communications. More companies have their facsimile number on their letterhead. Asking around, I find I am not alone in sometimes misreading letterheads and foolishly telephone dialling a facsimile number with resultant frustration and time wasting. I am confident that the frequency of this error would be reduced if facsimile numbers (but not the dialling codes) were printed in a different pattern from telephone numbers. This would make no difference to the telephone-based technology of *facsimile* but enable the eye to "spot the difference" instinctively. British Telecom, however, encourages facsimile users to use the same pattern for telephone and facsimile numbers. For London, 01-000 0000 is readily identifiable as telephone. I submit that 01-00 00 00 000 or 01-0000 000 (or some other variant) could in time readily be identifiable as facsimile, even to careless readers like me.

Ralph S. Carver.
Cognors,
Marley Heights,
Haslemere, Surrey.

Too noisy travels

From Mr A. Redston

Sir,—With *reference to* Mr R. Steel's letter on aircraft noise (July 10), I will immediately *transfer my allegiance as a* passenger to the first airline to introduce a soundproof box *for squalling babies. Infants* crying throughout the night have presented most of the passengers *from sleeping* at all on two of my recent long haul flights. If hospitals can provide soundproof areas so mother can sleep, surely airlines can manage at least to equal the NHS?

A. Redston.
5c Starview,
Discovery Bay,
Lantap Island,
Hong Kong

FINANCIAL TIMES

Monday July 21 1986

Paul Hannon
on Wall Street

Banking on more trouble

IT LOOKS increasingly like a case of a distant swimmer splashing in the water. You cannot decide if he is waving to you or drowing. Last week, such uncertainty applied to the US banking industry.

The doubt stems from the misfortunes that befell two banks and the subsequent stoic reaction of the stock market.

On Monday the First National Bank and Trust Company of Oklahoma City collapsed and on Wednesday BankAmerica disclosed a staggering $988m loan loss provision, producing the second-largest quarterly loss ($640m) by any American commercial bank.

Oil lay at the root of both developments.

The fall in the price of oil over the past eight months from $30 a barrel was hailed as the catalyst that would solve the problems of America's faltering economy. More evidence surfaced last week, however, to confront even the most optimistic market watchers with the reality that all was not well with the economy.

Oil is down, yes. But so are housing starts, industrial capacity, business sales and inventories.

"Wall Street has two eyes and one focus," claims Mr Eliot Janeway, veteran stock-market watcher and commentator for over half a century. "It sees cheap oil and thinks that's good. It has not seen what cheap oil is going to do to half of this country. The horror has yet to unfold."

The counter-argument runs that those are isolated issues, more of individual mismanagement than

TOP FIVE US BANKS

	% profit change in 2nd qtr	P/e	Price ($) Friday
Citicorp	−6	8	54⅞
BankAm	−89	−	13⅝
Chase Man	+11	6	39⅝
Man Han	−4.7	5	44⅞
J.P. Morgan	+50.6	9	86⅝

general recession. Once the benefits of cheaper oil are evident, they will no longer worry people.

The decision by the Federal Deposit Insurance Corporation to step into the Oklahoma banking quagmire was not taken lightly and will prove in time to be a costly intervention. The FDIC assumed $418m of First Oklahoma's troubled loans.

First Interstate, which will assume $1.5bn in liabilities with the commitment to invest large amounts of fresh capital, also secured a guarantee that if other loans turn sour during a 14-month-period, it can hand back an additional $250m in problem loans to the FDIC in exchange for their face value or slightly less. First Interstate will also receive a fee for each of the outstanding First Oklahoma loans the bank manages to convert into cash. Generous terms.

First Oklahoma's severe liquidity difficulties centred on its troubled energy portfolio, an obstacle faced by other banks in the south. Federal concern over the possibility that more banks may fail is real enough for Congress to consider the renewal, or even extension, of legislation permitting out-of-state buyers to rescue ailing banks.

The plunge by BankAmerica, the second-largest US bank holding company after Citicorp, was the third quarterly disappointment in 12 months. But it was viewed against a background of strong earnings gains for many other large bank groups. Wall Street could thus point to the 51 per cent jump in second-quarter profit for J.P. Morgan and the 19 per cent gain for Bankers Trust while ignoring the 8 per cent drop for Chemical New York, the swollen losses for InterFirst of Texas and a 66 per cent drop for Texas Commerce Bancshares.

BankAmerica's most immediate task is to retain the confidence of foreign account holders who represent $30bn worth of deposits. Bankers have not forgotten that the collapse of Continental Illinois in 1984 was provoked by a run by foreign depositors.

Mr Samuel Armacost, BankAmerica's president and chief executive, has already said the bank is not considering the sale of any prime assets.

Bank failures and big industrial bankruptcies are hardly a sign of a healthy economy but Wall Street has preferred to look at the optimistic side – that swimmer waving in the distance. Some revision of the banking sector has taken place, however, with BankAmerica trading near its low for the year while many others are down by nearly 10–15 per cent from their 12-month highs (about the same as the broad market).

The fundamental weakness in the economy remains uncorrected and in some cases ignored, although there is a growing view among banking analysts that more troubles lie ahead. In a less uncertain economic climate, you could almost bank on it.

Andreotti likely to admit defeat on Italian crisis

BY ALAN FRIEDMAN IN MILAN

ITALY's prolonged government crisis, now in its fourth week of stalemate, has taken yet another turn for the worse. Mr Giulio Andreotti, the veteran Christian Democrat who was asked 10 days ago by President Francesco Cossiga to form a new government, is expected this evening to go inform the President that his efforts have failed.

Mr Andreotti said at the weekend: "There is no consensus." His last attempts at compromise between the Christian Democrats and the Socialist Party of Mr Bettino Craxi, the caretaker prime minister, collapsed at the weekend amid a storm of accusations between the two parties.

Mr Andreotti had proposed that Mr Craxi should return as prime minister until next January in exchange for Socialist agreement that the Christian Democrats then take over the premiership.

The Socialists have refused all compromise proposals, while the official newspaper of the Christian Democrat Party, Il Popolo, spoke at the weekend of "approaching the point of no return." It now appears that Italy will have to hold early general elections, next elections, end of the present parliament in 1988 and possibly as soon as this autumn or next spring.

President Cossiga is expected to begin considering this evening three new options, which might result in an interim government. The options are to ask Mr Craxi to try to form another government; perhaps to ask Mr Giovanni Spadolini, leader of the Republican Party, to form a government as a "compromise" candidate; or simply to send the fallen five-party coalition government of Mr Craxi back to parliament for a fresh vote of confidence. The Government fell on June 27, when Mr Craxi resigned after a parliamentary defeat.

Mr Andreotti, who last Friday asked President Cossiga to extend his mandate until tonight, had hoped today to convene a "summit" of the five parties of the collapsed government – the Christian Democrats, Socialists, Republicans, Liberals and Social Democrats. At the weekend, he gave up the attempt, admitting: "A meeting of the five parties would now be more negative than positive."

The fact that Mr Andreotti has failed to find a compromise is a confirmation that the current crisis is one of Italy's most difficult and complex for many years. The veteran Christian Democrat politician was left practically alone in Rome this weekend, as party leaders deserted the capital. Mr Craxi was said yesterday to be "furious" with the Christian Democrats.

Austin Rover and Perkins claim breakthrough in diesel design

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT, IN LONDON

AUSTIN ROVER and Perkins today claim a breakthrough in automotive technology with the introduction of the first high-speed, direct-injection car diesel engines.

The partners claim that the new power units provide a 40 per cent fuel economy improvement over petrol engines and are 15 per cent less thirsty than conventional indirect-injection diesels, without any loss in performance.

About £27m ($41m) was spent over the past four years to develop the direct-injection diesels and bring them into full production, including about £5.4m provided by the UK Department of Trade and Industry towards the research cost.

Austin Rover, the volume car subsidiary within the Rover Group (formerly British Leyland) and Perkins, part of the Canadian Varity Corporation (formerly Massey-Ferguson) shared the rest of the cost equally.

Mr John Devaney, Perkins's managing director, says the engine is "not only a triumph of British engineering inventiveness, but also a tribute to the ability of our two companies to work together."

The new diesels, a naturally aspirated, 62-brake-horsepower unit and an 80bhp turbocharged version, are called the MDi when used in vehicles. They will first be employed by Austin Rover in a version of the Maestro van, to be launched in September. Maestro and Montego diesel cars will follow early next year.

Perkins calls its versions of the diesel Prima and is offering them for industrial and marine use. It already has more than £5m worth of orders from non-automotive customers.

Components for the new diesel are based on those in the Austin Rover 2-litre "0" series petrol engine – used in the Maestro and Montego cars – and the new M16 lean-burn engine.

Main components are machined at Austin Rover's Longbridge, Birmingham, factory and the diesels are assembled at Perkins's Peterborough plant.

Initial annual capacity is 60,000, which could be quickly boosted to 80,000 and then, with further investment of "a few million pounds," to 100,000.

Perkins estimates that demand for non-automotive versions of the engines will be between 20,000 and 30,000 a year.

Background, Page 4

LTV seeks to protect arms unit

BY TERRY DODSWORTH IN NEW YORK

LTV, THE second-largest US steelmaker, which filed for reorganisation under the Chapter 11 bankruptcy proceedings last week, plans to ask the courts to give differential treatment to suppliers in meeting its debts.

The request, aimed at keeping funds flowing to its suppliers of materials for its military equipment division, currently the only division of the group making profits, underscores the flexibility the company has achieved by the bankruptcy filing. Under Chapter 11, LTV gains protection from its creditors while it works out a reorganisation plan, and some bankruptcy specialists believe it will try to renegotiate several long-term supply contracts.

LTV is also expected to freeze its interest payments, now running at around $25m a month, along with pension payments of up to $200m coming due later this year. However, it has given no indication as yet whether it will seek to renegotiate its recently concluded labour contract or how it plans to deal with its debt.

Mr Lynn Williams, president of the United Steel Workers' union (USW) pledged at the weekend to "do everything in our power" to protect his 30,000 members among LTV's 56,000 payroll. Leaders of the United Auto Workers (UAW) have also promised to fight for the future of 8,700 union members employed in the aerospace division.

Steel-industry specialists, however, expect the company to try to reopen its labour contract in an effort to reduce costs, despite some recent court judgments suggesting that bankruptcy cannot be used as a device to cut wages.

Bankruptcy lawyers believe that on the financial side, LTV will be aiming to convert much of its total debt of $4.2bn into new common or preferred stock – tactics followed by companies such as International Harvester in the past. The key to agreeing a reorganisation plan rests with the group's 21 leading banks, led by Mellon Bank of Pittsburgh and Manufacturers Hanover of New York.

Zale's UK unit fights to block sale by parent

BY DAVID GOODHART IN LONDON

THE SENIOR management at the UK subsidiary of Zale Corporation, the world's biggest fine jewellery retailer, is fighting an unusual rearguard action to block the US parent company's current plans to sell its British interests.

Zale announced in March that it was considering selling its 200 jewellery shops in the UK, West Germany and Switzerland after an unwelcome bid for the whole company from Peoples Jewellers of Toronto.

It now appears that negotiations are almost complete on the sale of the 112-shop British subsidiary which trades under the Zales, Leslie Davis and Regent names. The price tag is about £30m ($45m) and the likeliest buyer is Combined English Stores, although BAT Industries is also thought to have expressed an interest.

A senior UK executive last night expressed dismay at the lack of consultation with management over the sale.

"We feel that Lazards [the merchant bank in charge of the sale] is not treating us fairly, considering how we have been improving results over recent years," he said. In the year to February, 1986 pre-tax profits were about £2.6m on sales up to £35.6m and the management boasts that it was the only leading retail jeweller not to make a loss in the early 1980s.

In addition, the management alleges that another company has made a bid about £2m higher than that under consideration but has "effectively been cut out of the latter stages of negotiation."

US and Japan near accord on semiconductors

Continued from Page 1

sue during this week's negotiations, which reopen today. Both sides have said they intend to complete the negotiations by the end of this week.

At face value, the agreement appears to meet most of the demands of the US chip makers. Industry leaders, however, will no doubt be most concerned about its implementation.

European concern about the extra-territorial nature of any agreement appear to have been reduced. EEC officials have had talks with US trade officials on the issue, and European chipmakers have given tacit support to US demands for a global monitoring system.

On the Japanese industry side, there is likely to be a fair amount of bitterness over the trade discipline imposed by the agreement. Some executives have already said that the semiconductor industry has become Japan's scapegoat for its country's huge surplus with the US.

As a result of this sensitivity, the US and Japan have apparently agreed to make only part of the agreement public. On market access, for example, the primary agreement makes no mention of a 20 per cent market share in Japan.

Instead, it states "The Japanese Government will impress upon Japanese producers and users the need aggressively (sic) to take advantage of increased market access opportunities in Japan for foreign companies which wish to improve their actual sales and performance." Both sides have also worked out a so-called Side Letter which will be circulated to industry executives in the US and Japan. This will include the 20 per cent figure, as well as other details.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	[illegible]	[illegible]	[illegible]	Dubrovnik	[illegible]	[illegible]	[illegible]	Majorca	[illegible]	[illegible]	[illegible]	Rhodes	[illegible]	[illegible]	[illegible]
Algiers	[illegible]	[illegible]	[illegible]	Edinburgh	[illegible]	[illegible]	[illegible]	Manchester	[illegible]	[illegible]	[illegible]	Rio de J'o	[illegible]	[illegible]	[illegible]
Amsterdam	[illegible]	[illegible]	[illegible]	Faro	[illegible]	[illegible]	[illegible]	Melbourne	[illegible]	[illegible]	[illegible]	Rome	[illegible]	[illegible]	[illegible]
Athens	[illegible]	[illegible]	[illegible]	Florence	[illegible]	[illegible]	[illegible]	Mexico City	[illegible]	[illegible]	[illegible]	Salzburg	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Readings at mid-day yesterday.
C–Cloudy D–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sun Sl–Sleet Sn–Snow T–Thunder

Arab oil ministers attempt to co-ordinate Opec line

By Phillip Halliday in London

THE OIL MINISTERS of Saudi Arabia and Kuwait held an emergency meeting with Sheikh Zayed bin Sultan al Nahyan, President of the United Arab Emirates, in Abu Dhabi yesterday, only nine days before the full conference of the Organisation of Petroleum Exporting Countries (Opec) in Geneva.

The meeting appeared to be an attempt to soften the tough UAE line on production levels and to recover a co-ordinated oil-production policy amid falling oil prices.

The price of oil has dropped dramatically as producers have increasingly ignored production quotas. Prices have fallen to below $10 a barrel, and current Opec production is running at 20m b/d, above the group's supposed ceiling of 16m b/d.

The two oil ministers and Sheikh Zayed discussed means of halting the drop in the price of oil in the light of the recent statement by Sheikh Mana Said al-Otaiba, UAE oil minister, that ruled out any cut in the UAE oil quota.

It appears that Sheikh Ahmed Zaki Yamani, the Saudi Oil Minister, views UAE acceptance of lower production levels as essential if Opec is to reach agreement later in the month. Current UAE production is estimated at 1.6m b/d.

However, it is also likely that the ministers discussed Iraq's recent announcement that it intended to ask for the same individual quota as Iran, which if agreed would add to the disarray in Opec's production-monitoring understandings.

The Middle East Economic Survey, the influential oil newsletter, said in its latest edition that Saudi Arabia had given up adhering to a quota because of a lack of a binding accord on output.

Today's meeting looks like an attempt to bring the Gulf states into agreement before the Saudis try to get the remaining Opec countries to conform over quotas.

Chernobyl officials may face charges

Continued from Page 1

A leading nuclear scientist was quoted on Friday as saying that the accident had forced revision of the entire nuclear energy programme.

The Politburo stopped short of blaming or punishing Communist Party leaders such as Politburo member and Ukrainian party chief Mr Vladimir Shcherbitsky or senior government figures such as Mr Nikolai Ryzhkov, the premier.

Leading nuclear-energy official Mr Andranik Petrosyants has said that a 4m kWh plant such as Chernobyl should produce 28.5bn kWh of power a year, if there were no shutdowns or other disruptions. That is about 16 per cent of the 170bn kWh of electricity produced by Soviet nuclear power plants last year.

The official newsagency Tass said on June 26 that thermal power stations had made up 10.4m kWh of the power lost in two months from Chernobyl, where three other reactors were shut down immediately after the No 4 unit was destroyed in the accident.

Those figures suggest that the Chernobyl disaster will slice heavily into a planned 13.5 per cent increase in nuclear power output this year.

Sliding $ keeps exchanges nervous

Continued from Page 1

last week that the agency did not intend to ask the Bank of Japan for an immediate cut.

In West Germany, meanwhile, despite some slowing in the rate of monetary growth and the D-Mark's rise to the upper half of the exchange-rate mechanism of the European monetary system, there is still little desire to cut the discount rate which, like Japan's, stands at 3.5 per cent. However, the dollar's fall below DM 2.13 has aroused concern among exporters.

Currency dealers have hesitated to push the dollar down too far at once, despite a prevailing sentiment that its long-term trend is lower.

They have been wary of leaving large short positions vulnerable to concerted central-bank intervention like that which followed last September's agreement by finance ministers of the Group of Five leading industrial nations to bring the US currency lower.

That has meant a steady pattern of small downward moves by the dollar, followed quickly by bouts of short covering taking it back some of the way towards its earlier value.

THE LEX COLUMN

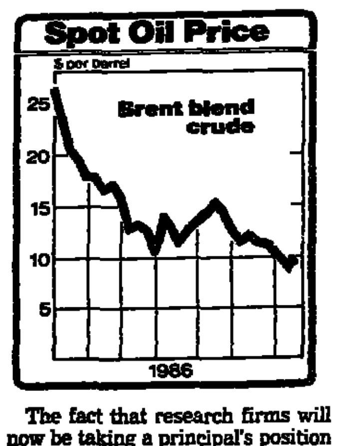
More equal than others

From the first intimations of London's Big Bang financial deregulation, starting with the Office of Fair Trading case against fixed commissions, the equity research business was seen as a prime casualty of the securities revolution: no more soft dollars, the argument ran, no more – or much less – research. So it was a dream-like surprise to most research analysts when they found that as the start of the new regime drew closer their transfer value actually increased, and by nearly as much as that of the scarce and valuable "barrow boys" who were going to run all those new equity dealing desks.

The strategists of the City's hastily assembled conglomerates seem to have decided, as one man, that success in the securities business required research credibility, never mind the overheads. Even those few houses that wanted to avoid paying a goodwill premium for entire broking firms – Morgan Grenfell was supposed to be the leading example – eventually shelled out, and then followed up by offering the "golden hello" treatment to individual analysts.

One part of the justification for that, the need for a research capability to support the role of corporate broker, is already looking a bit threadbare. That age-old conflict between the integrity of independent research and loyalty to the corporate client has been coming to the surface again; at least one large company, BOC, has moved its business to a broker that makes a point of publishing no research at all. That might indeed have happened without the surrounding changes in the securities business. But this type of strain seems all the more certain to be increased as the research firms enter into their new role: market makers in the shares they analyse.

For the most part, companies are unlikely to find much fault with a system which couples the advantages of active support on the research front with the weight of a securities house acting as principal to back its published judgment. The obviously vicious variants – systematically puffing as a preliminary to selling, going short as a preliminary to blasting the shares – are so clearly damaging to the long-term commercial interests of any securities firm that they are unlikely to proliferate.



The fact that research firms will now be taking a principal's position may none the less erode their relationships with companies, and not just those on whose behalf they broke. The informal one-to-one interviews with analysts could become difficult for finance directors to reconcile with the obligation to shareholders and the market at large: if the privileged anlyst goes home and tells his market-makers to short the stock, rather than penning a "sell" circular to institutional clients, the benefits of information may be too narrowly shared. The delightful practice of running forecasts past the company – replete with provocative mistakes – is another custom which might come into more damaging conflict with the principle that all shareholders must be treated equally. If it has to survive on less company contact, research may just become more difficult to do, and a less rewarding way to promote turnover.

It may be that the only acceptable way of guarding against the inbuilt abuses of the multi-level broking firm is for research to be quarantined in boutique operations with no trading exposure, although that is a solution which now implies an expensive corporate unbundling. An alternative is for companies to restrict their contact with the brokers to formal, City-wide, presentations, ensuring that everyone who wants it can get price-critical information at the same time. But so long as market-making co-exists in the same organisation as corporate finance, sensitive information may be expected to leak more rapidly to some market makers than others; semi-academic research is not even the most obvious route to a temporary market advantage.

Apologists for the new set-up will say that nothing has changed; not anyhow, for the worse. If a well informed firm takes a large position, that fact will become obvious to the rest of the market even faster, through the price-setting screens, than it does at present. Nor is it clear why this is a less efficient way of sharing information than the old system of watching the jobbers move their price in response to the large order that gets placed after some favoured institution has had a telephone tip. And if research is at once to be frozen out by companies and squeezed by falling revenues, there may simply be fewer tips to go round.

Oil

After 2½ years of persistent (and rewarding) bearishness about the oil sector, Hoare Govett has called the turn. Having been at the front of the queue out of the door, Hoare clients will have to be careful not to be flattened by the still fleeing multitude on their way back in. It is easy to see the pressure to make such a volte-face, even with a very thin basis for optimism. With all other sectors of the equity market rerated unto satiety, how tempting to switch the torch of fashion on to a sector which has seen some stocks fall by up to 85 per cent this year.

But even falls of this magnitude do not look excessive set against product values a third of new year levels. Indeed, the base case for the standard valuation of UK oil stocks appears to be about £10 a barrel, whereas the actual price is under £7 – at which level none of the UK independents can make profits, let alone pay dividends.

The argument for buying oil stocks appears to rest on a belief that Opec will patch together a production-sharing agreement in Geneva next week. Saudi Arabia's recent high production levels and Kuwait's suspension of democracy hardly look like signals of an end to the price war. Yesterday's pre-Geneva diplomacy in the Gulf can only have set the most optimistic of Opec hearts aflutter.

On Wednesday, Britoil will tell its ¼m shareholders how big their interim dividend will be. The nice thing about having a golden share is that it makes difficult decisions a little less difficult.

FINANCIAL TIMES SURVEY

Despite all the political and economic risks being taken, the administration of David Lange may yet become the first Labour Government ever to win a second term of office in New Zealand.

New Zealand

● Prime Minister David Lange has moved with surprising firmness in Wellington to tackle the problems inherited from the previous administration. An interview with Mr Lange appears on page 2. Other topics in survey include:

Pressing on with bold reforms

BY DAVID DODWELL

"IMAGES PERSIST of the island paradise, god's own country, the economic and social laboratory, the big farm, the land of milk and subsidies and 'she'll be right' — a nation hard done by through *no fault of her own* by the rest of the world," Sir Ron Trotter, New Zealand's leading industrialist, told a conference of young National Party members recently.

From this romantic vision he went on to portray the grim realities that have reduced New Zealand from one of the *richest members of the OECD* to one of the poorest in the course of 20 years — realities that have made him an outspoken supporter of the radical economic reforms of the current Labour Government, despite his traditional links with the National Party.

His less savoury vision — shared by industry and economists alike — is of a country taken to the brink of collapse, crippled by huge debts that were the fruit of grandiose state projects and a reckless lack of fiscal control; of a *farming and manufacturing sector* blighted by poor industrial relations and low labour productivity, and made oblivious to the importance of profitability by a prodigious array of subsidies, import licences and export incentives.

Nothing could be more telling than World Bank statistics showing that only 30 out of its 156-member countries performed worse during the 1970s — almost all of them in Africa.

Unhappily for the government of David Lange, the romantic vision of New Zealand as an island paradise *remains an evocative one that* many potential opponents might successfully exploit. As he prepares to dispense bitter economic medicine for the third successive year — much of it to the working class *groups that provide the traditional* hard core of Labour Party support — there are fears that it could be exploited to sweep the National Party back to power in elections that have to be held by September next year.

David Lange's government is New Zealand's fourth Labour Government, and it is notable that none of the previous ones has survived more than one term. This is the background *of risk against which Mr Lange* has been seeking to resurrect an economy on the verge of collapse.

The romantic vision evoked by Sir Ron Trotter is the more *potent because elements of it* unquestionably ring as true today as they ever have. The feeling of being hard done by, for example, was forcefully felt when the French Government threatened sanctions in retali*ation for the imprisonment of* secret agents involved in blowing up the Greenpeace vessel, Rainbow Warrior in Auckland harbour last July.

It has equally been felt as the US has pushed New Zealand into a corner over supposed commitments under the Anzus treaty to welcome nuclear powered vessels from the US Pacific fleet into local ports. There is a real possibility that New Zealand will suffer economic reprisals for what most New Zealanders feel is an entirely reasonable anti-nuclear stance.

New Zealand's reputation as an economic and social laboratory is traditionally based on industrial relations laws drafted over 90 years ago, and on one of the most comprehensive welfare states in the world. Today, it is the laboratory for a programme of economic reforms as radical as any tried in the western world.

The finance minister, Roger Douglas shrugs off suggestions that the Government has taken a huge risk. "I don't think we have taken a gamble," he insists: "We didn't have any alternatives. The biggest gamble would have been to go on as we were," he says.

He is, nevertheless, being *disingenuous. When he first pro*posed his package of economic reforms in his Alternative Budget, and his short book entitled, There has Got to be a Better Way, both published in 1981, he was sacked from the *shadow government.*

There is hardly any section of society that is not discomfited in some way by the reforms: Thus:

● He has devalued the currency by 20 per cent, and then allowed a free float. He has pulled down the barriers to overseas investment, fund-raising overseas, and the foreign acquisition of local firms.

● He has abolished subsidies, export incentives, most tariff protection, and the system of import licensing, exposing industry *to foreign competition* for the first time in decades.

● He is overhauling the tax system, and reorganising the

CONTINUED ON PAGE TWO

A man in a hurry

Mr Roger Douglas, Finance Minister: major force behind many reforms

INTERVIEWING Mr Roger Douglas, the New Zealand Finance Minister, is a little like talking to a devout Roman Catholic or possibly a Marxist. *He is the apostle of* a completely rounded philosophy or faith which you have to accept *in its entirety. It* is not divisible into component parts. Criticism of any *aspect of* his radical policies for deregulation of the New Zealand economy becomes an attack on the overall strategy.

When I suggested that the programme—in Britain, for example—of using market forces to bring about a reallocation of resources possibly has not worked out as it should, in that, while old inefficient industries have been shut down, new ones have not come along to replace them, and massive unemployment has been the result, Mr Douglas brusquely replied that he did not like comparisons. There were all kinds of differences, he said —differences in scale, product mix and so on. He did go on to point out, though, that there are three areas where his Government has been more radical than Mrs Thatcher's.

First, the British Government had maintained all kinds of subsidies. "If I were a small businessman *I'd* seriously think about setting up there," he said. Second, Britain had not really brought its money under control, despite all the talk that it would. And, third, the British Conservative Government had not truly radically reformed the tax system.

In all three areas, his Labour Government, he said had moved swiftly and decisively. In order to bring about a transformation of the New Zealand economy, you had to deregulate completely.

Most foreign observers and commentators agree that the New Zealand Labour Government has been far more radical in its free market policies than elsewhere.

The fact is that Mr Douglas who is the major force behind the reforms, has to be a man in a hurry. Governments are only elected for three-year terms. Of the four Labour governments in the past 50 years, none so far has been re-elected for a second successive term.

Mr Douglas has been an MP since 1969, and is the son of an old-time trade union member.

During the long years in opposition, he wrote the provocative book, "There's got to be a better way," which elaborated his free market philosophy.

Asked how he squares these policies with the traditional socialism of his party and his family, he answers that there is no conflict. He believes in a just society with fair shares for all.

So far the electorate seems to be giving him the benefit of the doubt that his policies will work. Mr David Lange's Government is well ahead in the opinion polls. This is an almost unheard of development for a government which is two years into a three-year term. Notwithstanding Mr Lange's lively foreign affairs activities, it is Mr Douglas and his policies which will probably determine the next election result. Mr Douglas has little time for doubters and is *ploughing on at top* speed with his policies.

STEWART DALBY

2109

Prime Minister David Lange explains the background to his economic changes

A race from day one

MR DAVID LANGE, the New Zealand Prime Minister, is in a race against time. He knows it and is the first to admit it.

"The implementation of our economic policy is an electoral race against the clock," he says. "It became a race from the very first day we took office, but what is generally not recognised is the effect the early snap election, and the situation we suddenly found ourselves involved in, has determined the fast pace at which our economic changes and reforms must be introduced."

"The first few days—even before we were sworn in—determined the entire course of this Government."

During the political crisis that followed the snap election victory for Mr Lange's party, the newly-elected Government discovered the country was in a financial crisis. The outgoing Prime Minister, Sir Robert Muldoon, had refused to devalue the dollar. Treasury and Reserve Bank advisers told Mr Lange he must do so immediately if the country was to survive that period.

"Normally a government would have a policy timed to cover a three-year period in office. We had to make a series of very fast decisions. We had to make them between the Monday and the Wednesday. We gave them a lot of thought and a lot of concentration, but did have to make them, and make them quickly," says the Prime Minister.

This is a major reason why the economic reform package, which was very much the long-held personal philosophy of Mr Roger Douglas, the Finance Minister, thus became the official policy of the new Labour Government.

Traditonal orthodox Labour Party philosophy could not have solved the crises facing the new Government, claims Mr Lange. Mr Douglas already had a reform package and once the first part of it—to float the value of the New Zealand dollar—was adopted, the rest had to follow.

"Once we opted for a more market oriented economy, it would have been illogical to carry on with an eastern European style of regulated structure which had previously been imposed on New Zealand.

"Throughout the whole of this Government, Roger Douglas has been the economic strategist—and he has managed to carry others with him."

Mr Lange reveals that Mr Douglas, frustrated by the restrictions of being an Opposition MP, almost abandoned politics in 1981. When Mr Lange learned of this he pledged that if he were Prime Minister when Labour came to power, then Mr Douglas would be Finance Minister.

"We talked about it a lot. I knew what his views were and what kind of economy he wanted."

Restructuring

It was to be 1984 before Mr Lange and Mr Douglas had the chance to start implementing those policies. These have included wide, sweeping changes and reforms, floating the New Zealand dollar, removal of protection and subsidies, restructuring the tax system, the creation of a free market economy not subject to Government intervention and the introduction of much greater competition into almost every sector.

Mr Lange knows if these do not soon produce results recognised as benefits by the man in the street, then the policies, Mr Douglas, Mr Lange and the Labour Government itself will all be rejected.

This is why the government is in a race against the electoral clock.

Although its policies and the speed with which they have been introduced have aroused considerable criticism, especially from long-serving Labour Party supporters who think the Lange Government has abandoned traditional Labour policies, Mr Lange claims this is not so.

One Government objective in creating the free market economy is the redistribution of wealth—with a fairer share going to those in the lower income group.

Another is to produce a more efficient, equitable social welfare state. The Government aims to produce a range of improvements in health, education and housing.

"In my view health care at present is scandalous in its misapplication of resources. The private sector is able to largely dictate Government spending, which is terribly distorted."

Mr Lange stresses that in the push for a free market economy, Labour's traditional welfare values have not been overlooked or forgotten.

"Mr Roger Douglas is not some sort of fiscal psychopath. He does not pull wings off dying butterflies. He has a hard Labour core to him, which is not often appreciated. He will eventually produce an economy we can use to assist those who need it."

In October, the Government plans to introduce a minimum income package.

"For the first time in New Zealand, this will ensure a liveable income for all those who work," says the Prime Minister.

Also in October comes the Goods and Services Tax, a New Zealand version of the *British Value Added Tax. This* was to have been introduced in April, but this was delayed because it was recognised that Roger Douglas had not been able to explain it adequately to the general public.

Revenues

In simple terms, the Goods and Services Tax will be applied to every transaction in New Zealand. It is intended to produce sufficient revenue to allow substantial across-the-board cuts in income tax and still leave the Government a surplus of NZ$700m, to meet its commitments.

The Government is also determined to change the role of trade unions in the New Zealand economic structure. In the past, the unions, especially older, conservative ones — which include some of the most powerful — have been preoccupied with bargaining on wages and conditions. The big economic changes and the fiercely competitive environment which is being developed will require a different approach to industrial relations from both unions and management.

So far, the Lange Government has received more public criticism than praise from trade unions — previously regarded as its strongest supporters.

In October, the Government will also introduce new rules governing industrial relations. For some months it has been trying to promote widespread discussions among unionists and employer groups on various options which might be followed. This has been met with suspicion on both sides, but Mr Lange is convinced that if the trade unions are to survive and have a role to play they must be more attuned to the realities of modern economic life and be able to work with employers to establish the best climate for their members.

Practically every New Zealand union operates under an award system. This is an agreement negotiated with employers in various industries. Unions with the greatest muscle force wage increases, which are then used as a yardstick by other unions demanding parity in remuneration for their members.

Mr Lange's Government wants to see more emphasis on what he calls "enterprise bargaining". He also wants to "rationalise" the national award system.

Trade union leaders are certain to condemn this in public, but Mr Lange believes many more far-sighted trade union leaders will privately welcome the new system.

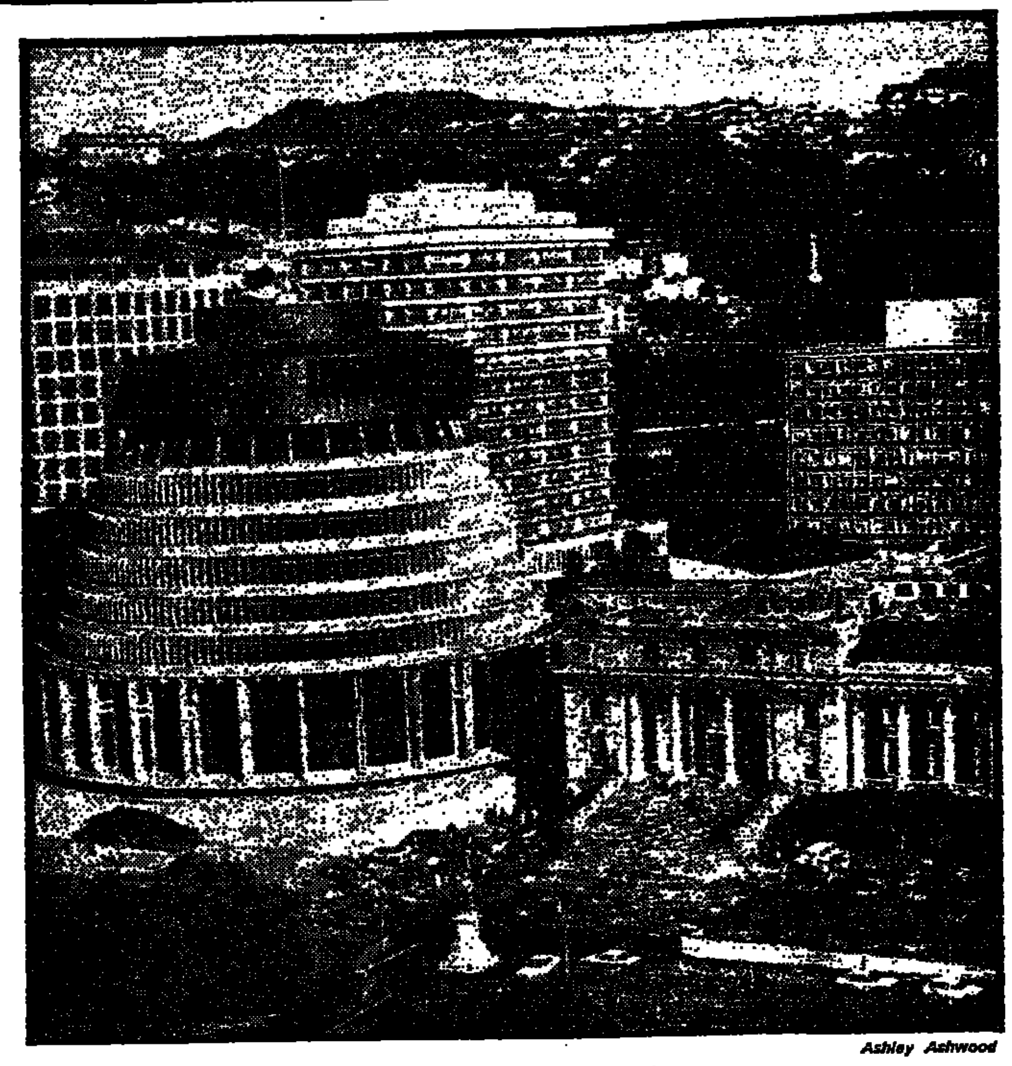
"I hope there will be some things that all trade unionists recognise as being good, but which none dare support publicly. All might criticise the Government for introducing the change, but at the same time all might appreciate the chance of operating under it."

At the same time the Government is anxious and determined to reform New Zealand's economy and create a much different New Zealand than it inherited less than two years ago. However, he and his colleagues are also aware of the basic day-to-day realities of politics. For example, one issue led them recently to intervene to ensure that home deliveries of milk would continue.

"It is very simple. It's all about staying in government. To implement an economic policy and the other things which you believe are desirable for the country, you've got to be in government. One way of getting out of government very quickly would be to stop delivering milk to people's homes," he says.

The latest public opinion poll gave Mr Lange's government an 11-point lead over the Opposition and showed him to be well in front of his rivals for the Prime Minister's job.

Dai Hayward



Ashley Ashwood

The Executive Wing—known popularly as the Beehive—alongside the old Parliament Building in Wellington.

Polls put Labour ahead

CONTINUED FROM PAGE 1

state benefits system.

● State industries are being forced to operate on commercial lines, removing a major burden on the Government budget, but challenging powerful interests inside the Labour movement.

● Major trade union reforms are being drafted, and are likely to be a litmus test of the Government's determination to reform even where its own vested interest are threatened.

Similar policies have been neutered by public opposition in the UK, and while parallels with the UK are superficial, the fact that a number of policy reforms threaten the long-standing vested interests of powerful groups inside the Labour Party means that traditionally loyal voting support could be at risk.

A critical difference with the UK — and one that gives reason for hope that New Zealand's Labour Government can succeed where others have not — is the apparent national consensus, when the Labour party was voted into power in 1984, that radical changes in policy were needed to deal with problems that had brought the country to its knees.

New Zealand was indeed "a land of milk and subsidies" — and this in part was seen to be at the root of its problems. What one respected economist described as "an unbelievable and *hopelessly complex* network of support" was costing the New Zealand taxpayer at least NZ$1.5bn a year in direct subsidies, and a further NZ$3bn in implied subsidies.

The energy intensive "Think Big" projects on which the National party had won an election in 1981, had cost the taxpayer NZ$5bn, for a return of "absolutely zero," according to Roger Douglas. Today, contingent liabilities linked with the three "think big" projects — a synthetic fuel plant, an oil refinery and a steel plant — amount to NZ$5.8bn. The drain on the budget in support of these loss-making ventures, is expected to be about NZ$1bn a year for some years to come.

In pursuit of these grandiose projects, Government spending rose to 41 per cent of the gross domestic product (GDP) in 1983, and has even now only been trimmed to 39 per cent. The loans raised to finance the projects have saddled the Government with debt servicing costs that consume 20 per cent of its revenues.

David Lange (left) cheerfully confident over his Government's 11-point poll lead over the Opposition National Party, led by Jim Bolger, (right)

The Government has moved with surprising firmness to tackle the problems it inherited. The one area where it has been slow to move is that of Labour reform. As a reform package is now being prepared, many see this area as providing a critical test of government will. Since a number of the proposals are likely to be fiercely contested by the trade union movement that provides the hard core of support to the Labour Party.

Nationwide wage bargaining is being challenged, industrialists want a consolidation of unions, to make wage negotiations simpler to conduct and wage agreements easier to enforce. They are pressing for greater flexibility to enhance productivity, and to link pay awards with efficiency and profits.

There is a widespread feeling that if the Government acts with the same firmness here that it has applied elsewhere in its reforms over the past two years, then strong recovery is possible —but that if it fails, then much of the good done so far will be undermined.

Mr Ken Douglas, head of the Federation of Labour, seems braced for major change: "We have been surprised at the speed with which the government has proceeded, and there has been growing anger and concern that it is not giving the unions effective protection from the adjustment costs of the changes," he commented recently. "But we are not going to be obstructive to change—we need to be part of it. While we don't like a large number of the changes, our approach has been to try not to be distracted into ideological battles."

The dilemma for the trade union movement is that a withdrawal of support for the Labour Government would almost certainly lead to a return to power of the National Government. Trade unionists are still smarting from National Party moves in 1983 to abolish compulsory union membership, and it is likely that a future National Party government would have such reforms high on its agenda.

Another electoral threat comes from New Zealand's rural areas, where the removal of farm subsidies has had a devastating effect. Land prices have plummeted. With world food prices deeply depressed, and borrowing costs at record high levels, many farmers have entered a period of hardship unparalleled in 50 years.

Despite political risks, Finance Minister Roger Douglas seems prepared to ride out the protests: "Agriculture will emerge much stronger, and will be highly competitive, once the changes are complete. It is an unhappy fact that there will be individual tragedies in the midst of this."

For all the political risks that have been taken, a view seems to be emerging that David Lange's administration may yet become the first Labour Government ever to win a second term of office.

This is no doubt partly due to divisions inside the National Party, with Jim Bolger, the party's leader since a "Palace coup" In April, so far failing to grasp any propaganda initiatives away from the government. This has raised questions about the possible return to leadership of Sir Robert Muldoon.

Roger Douglas's economic initiatives, many of them associated with a party of the right rather than a Labour government, has also left the National Party floundering for alternatives.

The mood can still change. It is difficult to predict how sentiment will be effected as the recession, first detected last September, deepens over the course of this year. Continued strength of the New Zealand dollar has frustrated export efforts, and could inflict serious damage on the performance of industry over the year ahead. Rising unemployment could erode confidence and support. Inflation is likely to surge above 17 per cent on the introduction of the new goods and services tax in September.

The Labour Government at present retains a confidence that is implicit in the widely used local saying, "she'll be right"—a feeling that despite adversity, all will come right in the end. There remains a conviction that while New Zealand may not quite be an island paradise, there are strengths inherent to the economy that — once unfettered—can project it rapidly back up the OECD ladder. Whether David Lange's Government presides over such a recovery may not be known before September next year.

Radical Economic Reform

'We had no alternative'

"I DON'T think we took a gamble — we didn't have any alternatives," says Mr Roger Douglas, New Zealand's controversial Finance Minister, looking back on two years of the most radical economic change the country has seen in half a century.

"The biggest gamble would have been to go on as we were."

There may be no consensus about the pace and scale of reform, but few would dispute that when the Labour Government of David Lange swept to power in 1984 wholesale economic change was essential.

Mr Rob Cameron, then in the Treasury but now working for a leading stockbroker, recalls: "We were on the edge of a major international collapse. Everything was on a crash course."

A Byzantine array of subsidies, import licences, export incentives and support systems for state enterprises had emptied government coffers. High direct taxation had made tax evasion a national sport, inflation was accelerating past 20 per cent.

Misallocation of resources was endemic. As one independent economist noted: "No one knew any longer what was profitable and what was unprofitable."

Sir Ron Trotter, head of Fletcher Challenge, New Zealand's largest industrial group, and a man with long-standing links with the National Party, is among the bluntest supporters of the reform being sought by the Labour Government.

"Changes had to occur because our lack of growth, our high inflation and our heavy overseas indebtedness left no other realistic option," he told a conference of young Nationals just two months ago.

Decline

Statistically, New Zealand's crisis could not have been clearer. From an enviable position as the third richest member state of the OECD in 1952, the country has tumbled in the past 30 years to a position just above the UK at the bottom of the OECD ladder.

According to World Bank figures, only 30 of its 156-member states performed less well over the 1970s—and almost all of those were in Africa.

No-one except perhaps Roger Douglas himself could have anticipated the pace and scale of reform invoked over the past two years—even though his economic blueprint had been spelt out fully in his Alternative budget" (for which he was thrown out of the Labour Party's shadow cabinet) and in his book "There has got to be a better way," both published in 1980.

Starting with a 20 per cent devaluation, and the removal of controls on interest rates in July 1984, the Government has dismantled the system of export incentives, import licensing, farm subsidies and other supports to industry. It has abolished foreign exchange controls, has removed laws restricting private overseas borrowing, and has introduced a free float for the Kiwi dollar.

Plans to "corporatise" state-controlled organisations have been unveiled — intended to improve efficiency and accountability, and to move towards a "user pays" system of operation between Government departments.

The state electricity corporation, along with coal mines, the post office, forestry operations, New Zealand Airlines and the National Broadcasting Corporation will in future be expected to run on normal commercial lines. These changes are expected to produce savings for the Government rising from NZ$900m this year to NZ$1.4bn in the 1988-89 financial year.

A Goods and Services Tax (GST) equivalent to value added tax in Europe will be introduced in September in a wholesale change of the country's taxation system. Direct taxes will in future not be higher than 48 cents in the dollar, compared with 60 cents today. The change will cost the exchequer a windful NZ$1bn in lost taxes, but is expected to reduce tax avoidance that was making a nonsense of the existing tax system.

The New Zealand public has so far taken the medicine with remarkable stoicism — perhaps a reflection of a national consensus on the seriousness of the ailment from which it is recovering.

The fact that people sense signs of recovery is also significant. Inflation has fallen to an underlying 12 per cent — though the change to GST will contribute a once-off inflationary boost of 5 per cent when it is introduced in September. Interest rates have not fallen to internationally reasonable levels, but have at least fallen and seem likely to continue downwards.

The Budget deficit is likely to be trimmed to 4 per cent of gross domestic product this year —half the size of the deficit in 1984. The deficit on the current account is expected to shrink from a record NZ$2.87bn in the financial year just ended, to less than NZ$1bn this year.

Set against the more promising signs is the fact of a still-daunting NZ$3.34bn of Government debt. Debt servicing continues to eat up 20 per cent of government revenues. The cost of servicing liabilities linked with the disastrous "Think Big" projects is alone expected to amount to NZ$1bn a year.

The politically - powerful farming sector is also seeing its worst year since the 1930s. The removal of subsidies and tariff protection has triggered a collapse in land prices and has coincided with depressed international trading conditions. The earnings of many farmers are understood to have halved over the past year.

The extremity of many farmers' problems has prompted the Government to introduce a package of special support proposals, but the possibility remains high of a political backlash in rural areas against government policies.

Economists both inside and outside the Government also say that a recession has begun to set in. Imports are forecast to fall sharply this year, after a 2½ per cent fall last year. Investment has also slumped by about 15 per cent in real terms over the past year. Company profits are expected to fall by 12½ per cent in real terms this year.

The recession has been long awaited, and economists at the influential institute of economic research have drawn comfort from indications that it will be shorter and milder than recently feared. They predict a 1½ per cent contraction in GDP this year, after marginal growth amounting to half of 1 per cent last year.

"The probability that the Government will manage to stick to its economic strategy is increasing," comments one normally sceptical analyst.

The one area seen as capable of scuppering the Government's achievements is that of labour reform. Industrial unrest has been endemic in New Zealand for many years, and continues to dog its manufacturing industries. Labour productivity is among the lowest in the OECD member-states, and is frequently blamed on entrenched trade union practices, intra-union rivalry, and simple Ludditism.

Industrialists now adjusting to the new and more competitive trading environment created by the Labour Government are calling for urgent reform of industrial relations. They want an end to national wage bargaining, and an amalgamation of the dozens of tiny unions that so complicate wage negotiations.

Whether the Government is willing to risk alienating trade unionists who make up the very heart of the Labour Party will be a critical test of its resolve to transform the economy. New legislation on labour reform is currently under discussion, and should be tabled before the end of the year.

Many economists watched with alarm the 1985 wage round which ended with wage increases averaging 18.5 per cent countrywide. They predict that these wage increases will play a large part in puncturing company profits this year, and forecast that increases this year, averaging more than 12 per cent are likely to deal a serious blow to recovery prospects.

Confidence

Finance Minister Roger Douglas regrets last year's surge, but insists he is confident that the inflationary impact has been limited. Government refusal to increase money supply to accommodate wage increases means that they must be absorbed by companies, who are likely to be forced to offer less overtime, and perhaps to impose redundancies.

"Unions were warned that this would happen if they pressed for large wage increases, so there should be no surprises," he comments laconically.

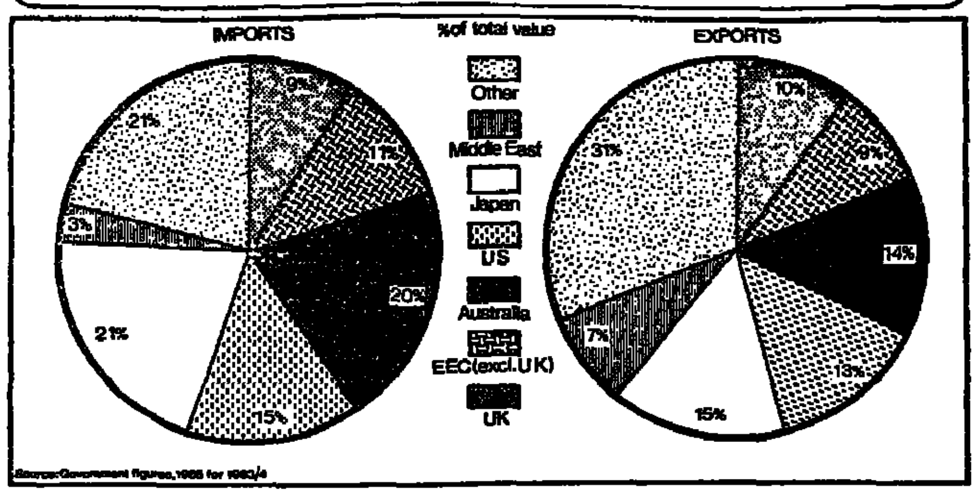
Unemployment has begun to emerge as a political issue, and in a country with a tradition of full employment is likely to become increasingly important as recession deepens. Contraction of the Australian economy is expected to reduce opportunities for New Zealand workers to migrate overseas in search of job opportunites, and this will further aggravate unemployment problems. Just how this sours relations between the government and the trade union movement has yet to be seen.

Roger Douglas appears remarkably unruffled by the pandemonium caused at the announcement of each new reform. He probably draws comfort from important figures like Sir Ron Trotter, who commented recently: "Businesses have suddenly realised that they can't go cap in hand to the government and ask for support. They have begun to get on with their businesses, and accept the thrust of where we are going."

With the period of transition now well under way, Roger Douglas is measured in his assessment of the Labour Government's achievements: "Progress is uneven, but when you are trying to orchestrate adjustment on the scale that we are doing, I never expected it to be otherwise."

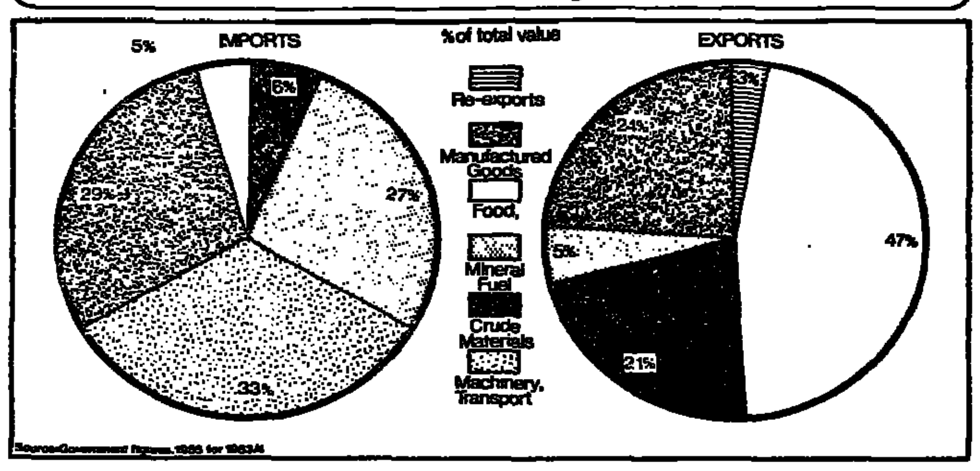
David Dodwell

New Zealand Trade by Country



Source: Government figures, 1985 for 1983/4

New Zealand Trade by Product



Source: Government figures, 1985 for 1983/4

PROFILE: JIM BOLGER

National Party leader

WHEN Mr Jim Bolger took over the leadership of the opposition National Party last March, it was difficult to believe that Sir Robert Muldoon, the largely discredited former party leader, and Prime Minister for more than nine years, did not have a hand in his appointment.

Mr Jim McLay, a genuine but retiring former solicitor, had, as the new leader, consistently trailed in the polls. He had had public rows with Sir Robert and, as a result, the former Premier had been placed at Number 38 in a Labour caucus of the same number.

When Mr Bolger, the MP for King county assumed the position, Sir Robert zipped up to No. 8 and took responsibility as foreign affairs spokesman.

Sir Robert's elevation leaves the National Party with exactly the same Front Bench that was in place when the party was wiped out by a landslide Labour Party election in 1984.

Mr Bolger, 51, and father of nine children, fails to see this as a problem. The Labour Party has a history of three-year terms and National has had the lion's share of power.

He runs a 500-acre farm near Hamilton in the North Island where he rears sheep and cattle.

"I've got a reasonable salary," he says. "If I didn't have a farm, I'd be all right."

Even so, the National Party has failed to come forward with a comprehensive alternative strategy to rescue farmers and has so far confined itself to lobbying for the reintroduction of exchange controls.

The Party does support the Americans in the dispute over nuclear armed and propelled port visits but this goes against popular support for the Labour Party's anti-nuclear policy.

On the dispute with France over the Rainbow Warrior affair, Mr Bolger proclaimed last month: "What has morality ever had to do with international trade?

When the agonising deal was done, however, to safeguard access of New Zealand butter to the European Community, Mr Bolger castigated Mr David Lange, the Prime Minister, for sending the two imprisoned French agents to what he described as a comfortable, palm-fringed Pacific island holiday. Such is the world of politics.

Mr Bolger was elected to the National Government in 1975 and appointed Parliamentary Under-Secretary to the Minister of Agriculture and Fisheries, to the Minister of Maori Affairs and to Minister in Charge of the Rural Bank.

In 1977, he became Minister of Fisheries and Associate Minister of Agriculture, during which period, he was involved in negotiations associated with New Zealand's proposal to declare a 200-mile exclusive economic zone.

Following the 1978 general election, Mr Bolger was appointed Minister of Labour, a post which he retained until July 1984 when the Labour Government was elected.

If he and his party are to repeat the New Zealand tradition of National Party Governments next year, they will need to come up with more concrete policies than have been apparent so far. This time, too, Sir Robert's influence might not be quite the vote-catcher that it has been in the past.

Stewart Dalby

Banking and Finance

Freer climate sharpens competition

IN ITS comprehensive plans to deregulate New Zealand's economy, the first area that the Labour Government tackled was the financial sector. This is being followed by a freeing up of the goods sector, the *removal of subsidies and other* supports to farming and to industry dismantling of trade barriers. In time the Government also hopes to remove rigidities in the jobs market and bring about greater mobility of labour.

The overall plan is that if market forces are allowed free play, there will be a reallocation of resources in a way which will allow New Zealand once again *to make its living in the world.*

There are those, such as Dr Brian Easton, the director of the Institute for Economic Research, who believe that the Government may have, what he calls, its "sequencing" wrong, that the financial sector is the easiest to deregulate and it may have been better to restructure the jobs market so that labour would go into new industries and areas of economic life with ease.

Few doubt, however, the old system of subsidies and distortions had to change. Simply put, the National governments up to 1984 were pouring subsidies and supports into industries which produced goods that the world no longer wanted to buy. Moreover, the Government and the country was moving heavily into debt to do this.

Sheep and dairy farmers received price *subsidies*, tax reliefs and subsidised interest rates which meant that, output of lamb, wool and dairy products continued to rise, even though world prices continued to slump because of over-supply and growing protectionism in the country's traditional markets. The cost of these subsidies, taken together with large borrowings for a programme of energy-intensive projects known *as the "Think Big" scheme,* meant that external borrowings rose to over NZ$25bn.

The fiscal deficit rose to 9 per cent of GDP, and the terms of trade continuing to decline, the Labour Government on gaining power in the middle of 1984 found it had a balance of payments constraint on its fixed exchange rate for its dollar.

Combining what it saw as a virtue with necessity therefore, one of the Labour Government's first acts was to devalue the New Zealand dollar by 20 per cent. In March of 1985, the dollar was floated and Government abolished exchange control which had been around, in varying forms, for approximately 50 years.

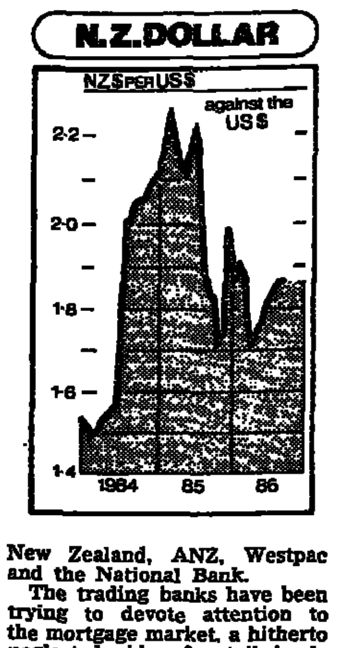
Dr Easton, among others, believes that getting the right exchange rate is the vital key to the whole deregulation experiment. If it is too high, New Zealand will not be able to sell its goods abroad, and if its too low, there could be another balance of payments constraint. So far, the Reserve Bank has maintained, according to Mr Rob Cameron, the Chief Economist at Jarden and Co, a leading *financial institution,* a completely "clean float."

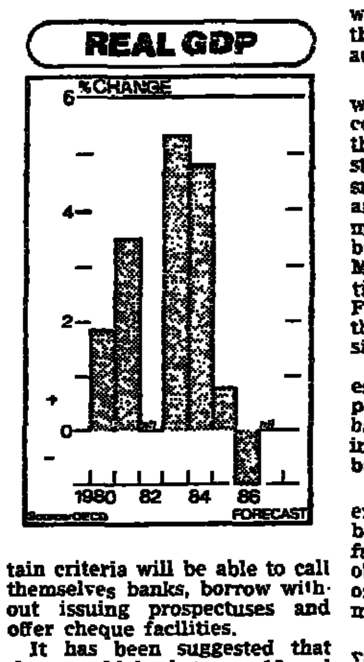
But the dollar has not performed as any expected. Under the last previous national government, there were interest rate controls and virtually complete wage and prices freeze. Sir Robert Muldoon, the previous Prime Minister, began to relax controls a little as the election approached, and reflate the economy. There was something of a wage explosion during the Labour Government's first year in office. Interest rates, in a free market, soared and were further fuelled by the Government's determination to bring the fiscal deficit down to 3 per cent of GDP. It started to "fully fund" the deficit with almost monthly stock tenders.

With the monthly stock tenders carrying interest rates of nearly 20 per cent at one stage, foreign money poured into the country and the dollar firmed up. By June of this year, according to some economists the New Zealand dollar was overvalued, possibly by 28 per cent compared with the pre-devaluation price of July 1984.

As the economy has started to slow down, inflation has dropped somewhat, interest rates have started to fall back. Indeed, it made banner headlines in one of the national newspapers when in June the interest rate for the Government's stock tender fell below 15 per cent.

The freer climate has started to sharpen competition between the existing banks. Retail banking is dominated by four large banks, although there are a number of finance houses, as well as the Post Office Savings Banks. The four trading banks are the Bank of New Zealand, ANZ, Westpac and the National Bank.





The trading banks have been trying to devote attention to the mortgage market, a hitherto neglected side of retail banking. Rates for a first mortgage are still running at around 18 per cent, but there are signs that consumers will be able to borrow a much higher percentage of the cost of a house. As *the situation stands a borrower* often needs two or three mortgages to buy his or her own home.

Exchange dealers

The Muldoon Government allowed foreign exchange dealings to grow. There are now around 20 authorised foreign exchange dealers, and it seems that this is an area which will continue to expand. In terms of world time schedules, New Zealand is well placed. It is two hours ahead of Australia. It can catch the close of operations in New York and the West Coast of the US, and then there is a *short lull before the Tokyo* Exchange starts to operate. It is estimated that the daily dealings in foreign exchange are around NZ$2bn.

The four trading banks and the foreign exchange dealers will really start to feel the breeze of competition when the Government finally passes legislation to open up the bank sector. It seems that a new law will be passed by the end of the year. *Under this law, financial* institutions able to satisfy certain criteria will be able to call themselves banks, borrow without issuing prospectuses and offer cheque facilities.

It has been suggested that there could be between 10 and 15 contenders for new licences when the Government finally lays down the ground rules. It is not clear, yet however, how many foreign banks will be interested.

Fay Richwhite, the New Zealand merchant bank, cites the case of Australia. In Australia, the entry costs of starting up have been prohibitively high. Chase AMP, one of 16 new banks being established in Australia, is believed to have spent more than A$10m starting operations there. It posted a A$5.4m loss for 1985/86 as a result, although it expects to be in profit this financial year.

A new bank in Australia faces a massive expense in gaining access to cheque clearing facilities. Chase paid a substantial sum to plug into the facility operated by the four big banks in Australia.

New Zealand's four trading banks run a similar clearing system using Databank. This is a sophisticated computerised clearing house system. It has invested tens of millions of dollars in banking technology, so that the four banks do have available automatic teller machines and an electronic funds transfer/point-of-sale system.

None of the four banks have so far revealed what terms they will set for outsiders to join the "club," if they will allow access to Databank at all.

It is, in any event, debatable whether new banks will concentrate on the retail side in the sense of shops in the high street. The market is very small; there are only 3m people and the country already has more than sufficient bank branches. Observers such as Mr Murray Smith, the chief executive of the Development Finance Corporation, feel that there is little scope for expansion in retail banking.

The government-owned DFC, established in 1973, has primarily been an industrial bank, *lending to and establishing* small- to medium-sized businesses.

In recent years it has expanded into other areas of banking. It has been self-*funding since 1976 and now* obtains more than 50 per cent of its funds from international markets.

In addition to arranging various Eurobond issues, DFC has also undertaken a wide range of private placements in Japanese, Middle East and Australian markets.

Developments

One area where DFC, which is being partly privatised, will increasingly move, is in personal finance. DFC has introduced a personal management service under the brand name DC Folio. This will have a screenlink which is a videotex-based financial management system, and there will also be a phonelink system.

Folio clients will be offered a whole range of instruments for their cash and funds, including commodity futures, overseas currencies, possibly industrial equities, eurobonds and so on. The service will be targeted at the "high net worth" clients, and it is thought that there is probably some NZ$2bn worth of funds to be tapped.

DFC feels that this is very much the way banking will develop when the country's "little bang" takes place, that is its banking legislation. Other banks will also move in this direction, but DFC feels it has a head start.

Stewart Dalby

Changes in Taxation

Key component in deregulation plan

NEW ZEALAND is engaged in a radical restructuring of its tax system.

Mr Roger Douglas, the Finance Minister and the main architect of the present Labour Government's free market policies is known to feel that tax reform is a critical component of the sweeping deregulation he is trying to push through the country's economy. He believes that without changing the tax system, some of the rigidities in the financial and labour *sectors particularly will harden* rather than unfreeze.

Put in its simplest terms, the Government wants to make a switch from direct to indirect taxation. At the same time it wants to eliminate a range of subsidies to agriculture and industry and close up corporate tax loopholes.

The rationale behind the reforms, according to a comprehensive statement made to the House of Representatives a year ago by Mr Douglas, is that the present system is both unfair and inefficient. In his words, "the tax system has failed to keep up with changes in our society." He says the system was unfair because the burden fell far too heavily on the personal income tax payer.

In the 20 years to March 1984 Government expenditure grew from around 27 per cent to about 41 per cent of GDP. This growth was financed mostly from personal income tax and increased borrowing.

A look at the tables attached to last year's budget—delivered in June 1985—shows that direct *taxation as a percentage of the* total tax haul was about 75 per cent. About one-eighth of direct taxation came from companies, the rest from individuals. This was apart from a small item of NZ$50.772 (£20,290) of direct taxation (out of a total of NZ$8.4bn collected) from non-residential withholding taxes.

At the moment there are five levels of tax. They start at a high rate, 20 per cent, and the tax payer moves quickly up through the other rates, 33 per cent, 46 per cent and 56 per cent until at NZ$38,000 he or she is paying 66 cents in the dollar for his or her top slice of income.

The Government reckons the average rate for a single person on the average wage has increased from 14 per cent in 1965/66 to nearly 28 per cent today. The average wage after fairly steep pay increases last year is probably about $17,000.

The amount the Government takes from the last dollar earned by a taxpayer with children on the average wage has increased from 23 per cent to 53 per cent over the same period.

Starting in October this year, the Government hopes to reform direct taxation by streamlining the number of rates, making cuts and improving benefits. To help do this it intends to introduce a comprehensive value added tax or Goods and Services Tax as it calls it.

The process of tax reform began, though, almost immediately the *Government gained* office in the middle of 1984. Several months into office, it removed direct subsidies to agriculture including the supplementary benefit. It announced its intention last year of phasing out the standard value system. This is the procedure whereby a farmer can write down the value of stock for tax purposes.

Thus, supposing a buck goat costs $1,000: it could have been written down as stock worth $200, with the remaining $800 set against tax. However, the Government now seems to be having, if not second thoughts, then doubts about abolishing the system altogether in one fell swoop because of the hardships currently facing farmers.

Another reform undertaken has been to impose a surtax on the national "super." Anyone over 60 years of age receives a pension or national superannuation, irrespective of whether they are still working. The superannuation is not "means tested," and although many older people do not bother to colect it, those who have retired but still receive dividend income remain eligible for the superannuation.

The Government imposed a surtax on the superannuation of 25 per cent for anyone receiving over $6,000 extra income or $12,000 in the case of a couple.

In the 1985 Budget, the Government brought in the Fringe Benefit Tax (FBT) which is *meant to hit at company* and individual perks. The tax is not paid by the person receiving the benefit but by the employer who provides it. Areas which have ideally been brought *into the tax net include cheap* interest loans, the use of company cars even for driving to and from work, subsidised holidays or travel and even goods made by the company and available to employees at cost price. FBT has been levied at a rate of 45 cents to the dollar on the perceived value of the fringe benefit. This rate it to rise to 48 cents in the dollar.

For company motor cars, the system is a complicated one based on six per cent of the current value of the car. *It is* levied every day on which the car is available for private use. If, for example, a salesman works out of town all week, he is deemed for purposes of the tax to have had the company car "available" for private use on four days of the week, Friday, Saturday, Sunday and Monday.

One group of accountants worked out that under the previous government of Sir Robert Muldoon, an estimated 25 per cent of any package offered to middle management executives and upward was free of tax both to the employee and the employer.

It was estimated that in the 1986 financial year-ending in June, the FBT would bring in $200m. In the event, collection seems to be running at half this amount. Whether this is because the Government need more tax inspectors or whether because accountants have found new legitimate loop-holes, is not yet clear.

The various concessions which were available through export incentives in tourist development taxation relief, farm development tax concessions and government support schemes, meant that at corporate levels tax liabilities *could be sharply reduced.* Large companies have often paid tax rates as low as 10 per cent, although corporate tax is officially 45 cents in the dollar and is due to rise to 48 cents in the dollar.

While the Government has been trying to plug various gaps in its almost two years in office, the major reforms are due to come in October this year. It is then that it brings in the Goods and Services Tax. The Government has repeatedly said that major restructuring of taxes and benefits is not possible without GST or before it comes into effect.

Mr Douglas has looked at other countries where a value-added tax has been imposed. He and his colleagues have come to the conclusion that such a tax works best when it *is applied to the widest range* of goods and services at a uniform rate.

The Government looked at the possibility of introducing a 15 per cent rate, but finally decided *that a 10 per cent level would* suffice.

The GST will apply at this single rate to the widest range of goods and services including food and clothing. There was much clamour for these to be exempt, but they have been included on the grounds that the highest paid spend more on food and clothing than low-income families.

No tax is to apply to exports and exporters will be entitled to a credit of tax paid on inputs to exports. GST will not apply to domestic rentals and mortgages but will be levied on land sales.

One effect will be to abolish sales tax. At present the tax is applied to general goods at rates ranging from 10 to 50 per cent of wholesale value. These will be phased out.

According to Mr Douglas they are "in a mess." There are various exemptions and wide disparities in application. The growing services sector is, moreover, left largely untouched by these taxes.

In addition to GST selective taxes will continue to be levied on alcholoic beverages and on tobacco products. In two other areas the Government will also impose selective taxes, as well as GST: motor vehicles will have a special tax and a racing levy will continue.

The Government believes the GST will spread a fine mesh throughout the economy, and *that indirect taxation will* make evasion more difficult. Severe penalties are to be introduced for evasion. Meanwhile, the Government is strengthening the bureaucracy in anticipation *of the tax.*

In a full year the GST is expected to bring in revenues of NZ$2.7bn. About NZ$1.3bn of this will be used to reduce direct taxes. In this way, the *effect on prices of GST ought* to be moderate. The Government hopes, rather optimistically some feel, that GST will mean a once-and-for-all 5 per cent increase in the retail price index.

To make direct taxation fairer from October 1 a new income tax system will be introduced with only three stages, replacing the five stages previously levied.

For the first $9,500 per year of taxable income the rate will be 15 per cent. For $9,501 to $30,000 there will be a rate of 30 per cent. And above $30,000 there will be a standard rate of 48 per cent.

The benefit of these reforms is supposed to be widespread. The average tax for a single person on an average wage will decrease from 27.9 per cent to 20.9 per cent. *This means a* tax cut of $21.07 a week. In addition, more of each extra dollar earned will stay in the hands of the taxpayer.

The lowest rate will be 15 per cent and extend over a greater range. This should mean that most low and middle income earners pay a marginal rate of 30 per cent. The table shows how much taxpayers should get back.

Besides *reforming direct tax* the government is going to revise family benefit and restructure payments to the unemployed. The overall package of tax cuts and benefits, is expected to cost *$737m* in a full year.

One area which so far has been left untouched is capital gains tax. The country's stock market underwent a boom recently and none of the gains were taxed. Mr Douglas is known to oppose a capital gains tax as such.

It is felt, though, that the GST, since it will apply to services will cut into share trans*actions* in some way. The GST, will clearly take some time to shake down. The Government is convinced, however, that it will be the key or a key to wider deregulation of the economy.

Stewart Dalby

Examples of income tax cuts

● For full-time principal earners without children

— Gross income — Annual $	Weekly $	Present income tax weekly $	New income tax weekly $	Income tax cut weekly $	Percentage reduction in income tax
6,240	120	14.27	4.00	10.27	72
7,280	140	20.87	11.00	9.87	47
8,320	160	27.47	18.00	9.47	34
9,360	180	34.07	25.00	9.07	27
10,400	200	40.67	32.60	8.07	20
11,440	220	47.27	38.60	8.67	18
12,480	240	55.23	44.60	10.63	19
13,520	260	65.13	50.60	14.53	22
14,560	280	75.03	56.60	18.43	25
15,600	300	83.67	62.60	21.07	25
18,200	350	100.17	77.60	22.57	23
20,800	400	116.67	92.60	24.07	21
23,400	450	133.17	107.60	25.57	19
26,000	500	151.88	122.60	29.28	19
28,600	550	174.43	137.60	36.83	21
31,200	600	199.40	156.75	42.65	21
36,400	700	255.50	204.75	50.75	20
41,600	800	318.36	252.75	65.61	21

Notes: 1 The tax cuts shown above were calculated on a full-year basis then divided by 52.
2 The tax cuts are due to the new tax scale (excluding standard employment deduction) the removal of the principal income earner rebate and the introduction of the transitional tax allowance.

Economic links with Australia

Trade balance tips in right direction

AMIDST ALL the gloom that surrounds New Zealand's trade prospects in a world of protectionism and large agricultural surpluses, one shining trade success story stands out. That is the Closer Economic Relationship (CER) with Australia.

After CER's inception in 1983 trans-Tasman trade grew by 19 per cent each year in the first two years and by 15 per cent in 1985. Previously, New Zealand's trade had been only increasing in single figure terms in both directions.

The indications are that for the first time ever the trade balance has moved in New Zealand's favour. The 11th CER Monitoring Report, released by the Australian High Commission in Wellington, says that Australian produce exports to New Zealand totalled A$1.3bn for 1985 about 3 per cent less than 1984's record level of A$1.5bn. Imports to Australia from New Zealand increased in value by 40 per cent in 1985 to A$1.4bn.

The report says that a major part of this increase involved petroleum products valued at A$131m, which were used for refining. This should possibly be regarded as an exceptional item.

However, in May this year the Department of Statistics in Wellington released, with a rather ostentatious flourish, an "unrestricted" press release which said, for the first time since the beginning of CER trade between Australia and New Zealand had turned in the latter's favour. For the March 1986 quarter the balance of trade was NZ$12.5m in New Zealand's favour.

For the same period a year earlier it was NZ$101.8m in Australia's favour. New Zealand imported goods worth NZ$428.2m a drop of 18.1 per cent over the comparable period.

While it is probably unwise to extrapolate from one quarter's figures, it seems that if Britain and the rest of Europe are regarded as separate markets, Australia has become New Zealand's largest single export market with over 17 per cent of exports going there compared with 15 per cent to Japan.

For two-way trade, however, Japan would still seem to be slightly ahead since 20 per cent of New Zealand's imports come from there.

The CER replaced the New Zealand Australia Free Trade Agreement which had shaped New Zealand Australia trade since 1965.

The basic idea was that unlike Nafta CER was to dismantle all tariffs, quantitative restrictions and performance-based incentives affecting trade between the two within an agreed timetable. A mini "common market" of 18m people would thus obtain.

Tariff changes

Almost all tariffs and export incentives should have disappeared by 1988 and import licensing by 1995. As far as tariffs are concerned apart from products covered by special modifications to a general tariff and access liberalisation formula, all tariffs are being phased out in equal steps at a minimum rate of 5 percentage points a year. The 11th monitoring report confirms that tariffs on most goods have been reduced by 20 per cent. Australia has eliminated tariffs on nearly 300 items since the commencement of the agreement leaving tariffs on about 180 items.

New Zealand has removed tariffs on about 400 items leaving nearly 600 categories still subject to tariffs. In both cases the number of items do not necessarily correlate closely to volume or value of trade.

Many of the items on both sides still carrying tariffs are categories like motor vehicles and components, plastics, clothing, chemicals and rubber products. These are the goods covered by the modified programmes or, put another way, these are products which will be subject to different phasing arrangements.

Exports from New Zealand to Australia should easily be free of almost all licensing by the target date of 1995. New Zealand has a more highly protected economy than Australia's and in the period before 1995 New Zealand is making available to Australia Exclusive Australian Licences (EALs) where global licensing applies and access for some Australian products where no access previously existed.

Special arrangements for licensing have been made in some areas such as wine and dairy products, but as with other modified programmes they could come under scrutiny well before the respective target dates of 1988 and 1995.

Export incentives were to have been phased out by 1987. In New Zealand's case this target should easily be met since under its sweeping deregulation programme the country's Labour Government has dismantled many export support schemes and plans to go further before the next General Election, due in 1987.

When CER was started there were fears that Australia with its more robust economy and greater opportunities for economies of scale and so on would swamp New Zealand. These fears were accentuated by thoughts that New Zealand's small industries, highly protected for 40 years, would be unable to withstand the blast of competition.

In the event it appears to be New Zealand which has done better out of CER than Australia. Officials in the office of Mr Mike Moore, the Minister for External Trade give two basic reasons for this. First, New Zealand is a lower unit cost manufacturer than Australia. Historically it has lower labour costs.

Second, New Zealand businessmen seem to have taken greater advantage of the opportunities than do their Australian counterparts.

Mr Graham Coleman, Executive Assistant to Mr Moore says: "To Australians, New Zealand was just another market, the size, say, of Adelaide. To New Zealanders, Australia represented a market four times the size of its own population. They seized their chances."

Manufactured goods, broadly defined, now account for 24 per cent of New Zealand's exports. A flick through the 11th monitoring report shows New Zealand exports a whole range of non-traditional products, such as office machines, telecommunications and sound-recording equipment, electrical machinery, furniture, plumbing equipment and so on.

Markets for these high value, relatively small volume items (or what Mr Coleman calls "niche products") do seem to exist. The markets here were never really tested while industry was so highly protected.

Many feel that the more stimulating atmosphere of deregulation generally that the Lange Government has brought about has helped New Zealand. The free market policies also appear to have made both countries look for opportunities in other areas, such as company law, taxation, industrial cooperation, government purchasing policies, transport and even tourism.

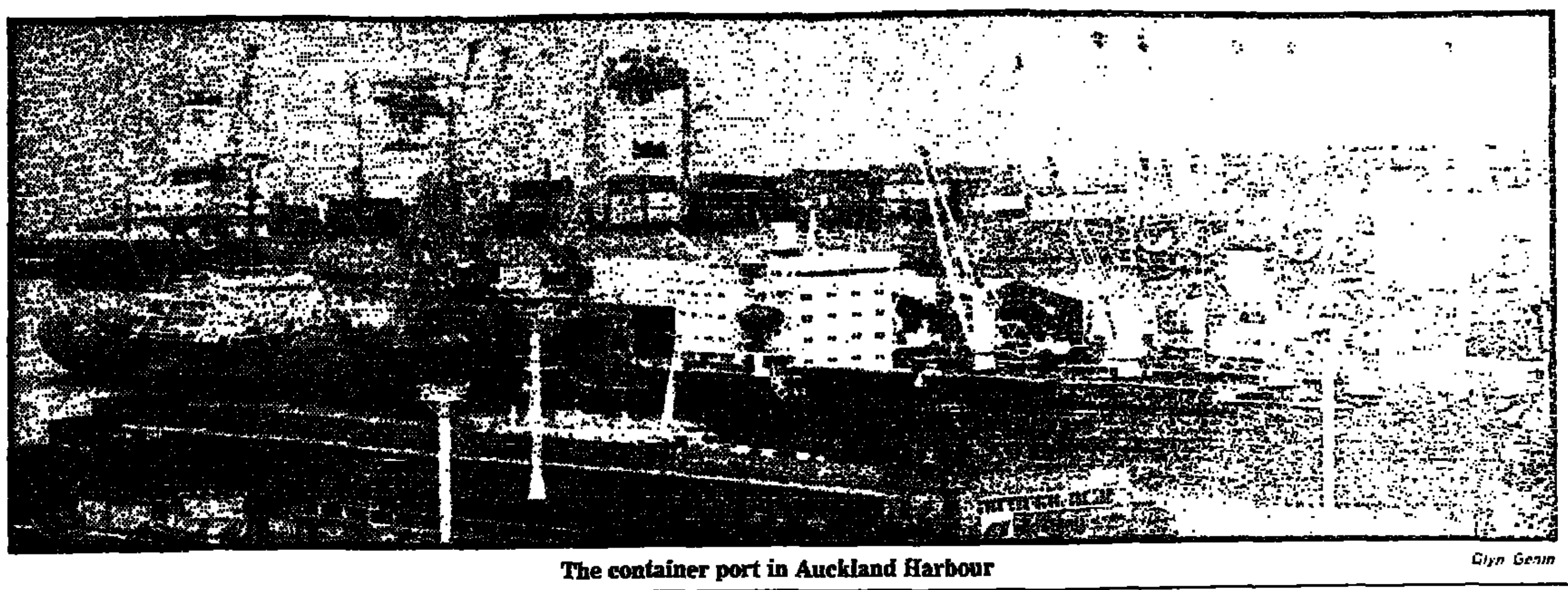
Some of these areas are due to be reviewed by 1988 or sooner. Already, there is a relatively relaxed migration arrangement. New Zealanders can go to Australia and work, go on social security and vice versa.

Since the mutual financial deregulation, financial links have also boomed. Without any exchange control New Zealand companies have piled into Australia very rapidly. No precise figures are available but of hundreds of millions of dollars invested abroad some 15 to 20 per cent is thought to have gone to Australia. The reverse figure is thought to be much higher.

Mr Mike Moore feels that there are still enormous benefits that could accrue to New Zealand through CER.

"We are the little guy in this situation and the little guy has more to prove, so he tries harder," he says.

Stewart Dalby



The container port in Auckland Harbour

Glyn Genin

Trustee Banks

Merger brings big advantages

THE FIRST new bank to be set up as a result of the deregulation of New Zealand banking system is Trust Bank—formed by the merger of 11 of the country's 12 trustee savings banks.

The merger was necessary to enable the trustee banks, which previously operated under certain limitations, to provide a full banking service and compete in the new expanded banking area. The Government will introduce legislation later this year allowing any financial institution with NZ$30m in assets and which can meet some other relatively simple requirements to apply for a licence to operate as a full bank.

The 11 trustee banks will be joined through a holding company. Each will have share in this and become a subsidiary of the holding company.

The trustee banks had already made some moves towards a national operation. They were linked in an automatic teller machine (ATM) network and were the first to plan a nationwide electronic funds transfer point of sale (Eftpos) system.

They had also jointly financed the purchase of a large computer network enabling the trustee banks to be independent of any other clearing system.

Trust Bank starts with some big advantages. Its assets of NZ$4bn make it second only to the Bank of New Zealand which has assets of NZ$5.6bn. Trust Bank is larger than the other three trading banks and will certainly have more assets than any of the new names expected to arrive on the New Zealand banking scene, later this year.

Trust Bank also has the biggest retail banking base in New Zealand. This is the envy of the existing trading banks which are now making strenuous efforts to build up and expand their share of the retail banking business.

The trustee banks gained their assets and their huge retail banking base through the special niche they have occupied in the New Zealand financial scene.

Each of the 12 trustee savings banks was based on a geographic area and most carried the name of that area, such as Canterbury Trustee Bank, Wellington Trustee Bank and so on.

The trustee banks were, in many ways, "the people's bank" with a large part of their business being the handling of deposits from small investors, provision of house mortgages and other retail banking activities.

Trustee banks have also been closely involved with community activities and local charities. They stress that the merger into Trust Bank will not weaken this local identity.

The one bank which has refused to become part of the new Trust Bank — Taranaki Trustee Savings Bank — gives as its reason this local identity and loyalty to local customers. Taranaki TSB has been one of the most innovative and financially successful of the 12 trustee banks. It says that its assets, resources and profit are owned by the people of the Taranaki area and the directors refuse to put these into the common pool of the Trust Bank to be administered by "some distant, detached and unrelated committee."

Trustee banks have operated under a Government guarantee to protect depositors' funds. It was widely believed the Government would remove this guarantee when the new Trust Bank was established. To the surprise of the New Zealand banking industry—and the consternation of the four existing trading banks — the Finance Minister, Mr Roger Douglas, has allowed Trust Bank to retain the Government guarantee for at least five years. The Bankers' Association has already claimed this is giving the new Trust Bank an unfair advantage over other banks, none of which have this Government guarantee.

The trustee banks have no issued capital, but retained their earnings to support their funding. This is why the Government guarantee to safeguard depositor's funds was provided.

Trustee banks were, however, limited in the scope of their operations. They could not deal in foreign exchange or be heavily involved in corporate banking. Now these restrictions have been removed so the new Trust Bank is preparing for a fierce battle in New Zealand banking scene.

It certainly has many advantages over most of the newcomers likely to apply for a licence, and even over some of the existing trading banks. It has a nationwide network of branches. It already has a large asset base and strong public and community support right throughout the country.

A huge following of loyal customers has been built up over the years. These, and the personal service trustee banks had to provide to attract and hold their customers, gives the new Trust Bank a major advantage and a head start in the new expanded banking scene in New Zealand.

The other big development in the New Zealand banking scene in the past few weeks is the decision of the Government to sell one-third of the shares in the Government-owned Bank of New Zealand. It is doing this to raise NZ$150m to improve the bank's asset ratio.

The decision has aroused considerable opposition from trade unions and traditional Labour Party supporters who see the move as a reversal of Labour Party philosophy.

The Government, however, claims that it will still have full control of the BNZ because the new public shareholders will have no voting rights.

Dai Hayward

NEW ZEALAND 6

Agriculture

Farmers face intense debt problems

THERE IS a saying in New Zealand that if a farmer stops wingeing, it usually means he is dead. In the last few months, though, the country's farmers have been complaining more loudly and bitterly than ever—and with some justification.

The industry has borne the brunt of the Labour Government's deregulation strategy and, in protest, 30,000 farmers and colleagues in associated industries last April demonstrated outside Parliament to press home their message.

It has not exactly fallen on deaf ears but the urban community has hardly been forthcoming with expressions of sympathy.

Townsfolk tend to feel that the farmers, seen as an exceptionally privileged club, numbering only about 50,000 out of a population of 3.2m, have finally received their comeuppance after years of "crying wolf."

This small club is, however, still the backbone of New Zealand's economy, with agriculture accounting for 60 per cent of export revenue and, this time, at least, their protest is genuine.

Sheep and beef farmers' incomes have dropped by more than half in the past year. Dairy incomes are about to fall by about the same amount in the coming season, largely as a result of the floating of the New Zealand dollar which has appreciated by 28 per cent against the US dollar.

The average New Zealand farmer will face a cash deficit this year of about NZ$12,000. Furthermore, the value of farm land has, over the past few years, fallen by half as myriad agricultural subsidies and tax concessions, introduced by the former National Government—some say as a rural vote-catcher—have been removed and interest rates have soared as high as 26 per cent.

Farm prices had risen to unrealistic levels under the combined effects of inflation, oil prices and subsidies. A Rural Bank case study shows a farm that was worth NZ$4,000, in 1938 had reached NZ$88,900 by 1972 and a massive NZ$610,000, 10 years later. That particular farm is now worth NZ$250,000.

Some rural families have as many as 10 mortgages on their property, much of its borrowed against the inflated prices of the early 1980s. Farm equity levels have dropped from 90 per cent to 60 per cent in four years.

Overall farm debt is estimated now at more than NZ8.5bn, of which NZ$2bn is thought to be unrecoverable under normal commercial parameters. Sixty per cent of farmers have debt outstanding on their land.

About 8,000 farmers, mostly hill country operators, are considered most at risk. Of these, almost 3,000 will probably have to leave the land.

Farmers' income this year is estimated by the Agriculture Ministry at only NZ$14,000, well below the average weekly wage and NZ$2,000 below the minimum income level set in fixing supplementary welfare benefits.

"It's the worst crisis since the Depression," says an official of Federated Farmers, the industry's lobby group. "The only difference is that the people in the towns aren't suffering, too."

Falling world commodity prices have also taken their toll. Last year, farmers sold lambs for NZ$24 each. This year, they receive between NZ$10 and NZ$12. If ewes are sent off to the meat works, the farmer more often than not merely receives a bill.

New Zealand's dire agricultural position is perhaps best illustrated by its intention to slaughter 37m lambs for sale this year. Australia will only slaughter 17m from a national sheep flock more than twice the size.

New Zealand continues to supply 55 per cent of the world's sheep-meat, but the dramatic fall in oil prices has meant that new markets opened up in the Middle East to replace lost European sales have contracted shrply and the country has had to sell large quantities of its product to the Soviet Union at disposal prices.

The industry was further hit earlier this year by a five-week strike at highly inefficient killing plants which led to a dearth of New Zealand lamb on British Sunday lunch tables.

It has meant that a backlog of shipments is only now beginning to hit the market at a time when British lamb supplies are suffering from killing restrictions in parts of Scotland and Wales as a consequence of the Chernobyl nuclear power accident.

The tragedy of Chernobyl may have lifted sales of New Zealand agricultural products, particularly fruit and dairy sales, to Eastern Europe but the authorities in Wellington are keen to play down any emphasis on anti-nuclear policies that might be seen to exploit an unfortunate position, especially given that 135,000 tonnes of a total of 319,000 tonnes of sheep-meat is sold to Britain each year.

Wellington is being especially careful not to rock the boat with regard to quotas for butter into the EEC for next year and 1988 of 77,000 tonnes and 75,000 tonnes respectively (against 79,000 tonnes this year).

The quotas, which France has agreed to approve as part of the deal with Paris over the Rainbow Warrior affair, amount to more than a third of New Zealand's dairy exports, without which dairy farmers would be in a much worse position than they already are.

Support for the dairy sector is set to be cut by a third in the coming season when farmers are expected to be paid NZ$2.50 per kilogram of milk fat against a superficial rate of NZ$4 per kilogram. The higher rate has been possible only because of the New Zealand Dairy Board's NZ$400m special reserve fund which has had to be supplemented at the cost of heavy borrowing from the banks.

Dairy farmers are being squeezed on third country markets by huge EEC surpluses and the consequences of the US Farm Bill. Beef producers, too, will be hurt by the slaughter in the US this season of 1.5m dairy cows for the meat market as part of the Bill.

There are also veiled hints from Washington that they will suffer as a result of New Zealand's policy forbidding visits of nuclear-armed or nuclear-propelled US ships.

Although the prospects for traditional agricultural products look bleak, there has been a significant diversification—if belated—into new livestock breeds and crops. Deer, cashmere and mohair goats have taken the place of sheep and cattle in many parts of the country, resulting in a boom in prices for all three breeds.

New Zealand's deer industry is the first of its type in the world and the country has carved out a significant market. A few years ago, deer were regarded as pests. Now, they are expected to earn NZ$17m in venison sales.

It will be several years yet, however, before New Zealand sees any significant returns on sales of "cashgora," a unique blend of mohair and cashmere, since the product needs three generations of crossbreeding before the right mix is achieved.

In the meantime, the plight of both the traditional farmers and their so-called "high-tech" colleagues, may be alleviated somewhat by the Government's "rescue package." Announced earlier this month and almost a year late, the measures are aimed at allowing potentially profitable farmers to restructure some of their debt.

Those in serious financial trouble will be able to reorganise loans held by the Rural Bank and the state is prepared to guarantee some private sector loans for the coming season, provided other lenders also underwrite outstanding debt.

The package has been greeted by fierce criticism from Federated Farmers spokesmen who protest that they will not allow the wholesale driving off of farmers from their land.

While the farmers' lobby broadly approves of the Government's economic strategy, it feels it has moved far too fast and has not taken kindly to having its members act as guinea pigs for New Zealand's latest economic experiment.

Stephanie Gray

Value of agricultural production

Agricultural production, including agricultural contracting; output in NZ$m

Year ended March 31	1984	*1985
Wool	933	1,207
Sheep and lambs	512	736
Cattle	724	991
Dairy products	1,193	1,423
Pigs	89	163
Poultry and eggs	152	201
Crops and seeds	280	308
Fruit and nuts	224	322
Vegetables	278	233
Other horticulture	149	161
Other farming	96	108
Agricultural services	319	357
Value of livestock change	200	186
Sales of live animals	775	794
Total output	5,923	7,129
less intermediate consumption	3,320	3,717
Agriculture's contribution to Gross Domestic Product†	2,602	3,412
At 1977-78 prices	1,684	n.a.
Gross Domestic Product	34,935	40,978
Agriculture as a percentage of Gross Domestic Product	7.4	8.3

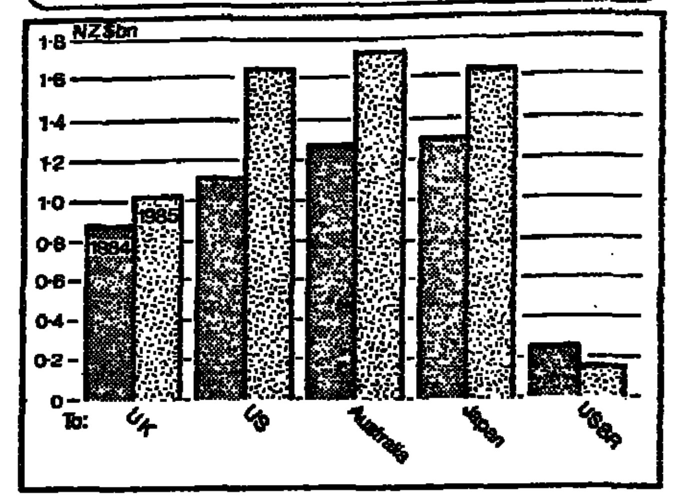
* Estimated, October 1985.

† Gross agricultural output measured at the point of first sale, less off-farm non factor inputs. These items (for example, wire, which comes from the metal manufacturing sector) are called "intermediate consumption" items.

n.a. Not available.

Source: Government statistics.

Agricultural Exports



Livestock performance

Season ended	1984	1985	*1986
Total wool per sheep wintered (greasy) (kg to June 30)	5.17	5.35	†5.14
Lambing percentage (June year)	97.9	105.3	101.0
Export lamb (carcass weight) (kg September year)	13.6	13.5	13.5
Export beef (carcass weight) kg September year)	236.6	239.4	237.0
Milkfat/cow at factory (kg to May 31)	154.2	152.2	153.9

* Estimates.

† Expressed as total wool production divided by sheep numbers as at June 30 1985. An exceptionally high level of mutton slaughtering between July 1 and September 30 1985 meant the numbers of sheep shorn were fewer than the number on hand at June 30 1985, artificially reducing the production per sheep figure.

Sources: NZ Wool Board; Meat Producers' Board; Government figures.

Dairy Industry

EEC stockpile forces incomes cut

FOR DECADES the New Zealand dairy industry has boasted—with complete justification—that it is the most efficient of its kind in the world.

So a proposed scheme to pay farmers to reduce the number of cows and stop producing milk has staggered the industry and New Zealand generally.

Many New Zealanders ask why, in a world desperate for food, its most efficient dairy producers should be facing economic collapse and are now required to cut back production.

The answer is, like European dairy countries, New Zealand is feeling the effects of over-production. In the season just ended, dairy farms—helped by a good growing season—produced a record 349m kilograms of milkfat, compared with 332.4m kilograms produced in the previous year.

The New Zealand Dairy Board, which has the job of marketing butter, cheese and other dairy products, feared that farmers, facing a severe drop in their incomes, would temporarily try to make up some of the loss by increasing the size of their herds.

Last year's increase in production came despite a ban on new entrants to the dairy industry. This ban was imposed a year ago and operates until next November.

Dairy farmers' incomes are down by at least 25 per cent according to Government figures. Prime Minister David Lange has predicted that several thousand dairy farmers will have to give up farming.

Many are facing a financial crisis because high interest rates, which sent their repayments soaring on capital loans, coincided with a sharp fall in incomes, partly caused by the high value of the New Zealand dollar.

The main cause of the plight of the New Zealand dairy farmer, however, flows from the surplus production and very high levels of stocks in the EEC and the US. These dominate the world market and depress prices to the extent that prices for New Zealand butter are down by about a third on what they were less than two years ago.

New Zealand has made strenuous efforts to find new markets for its butter and other dairy products. It has had considerable success, but dumping by the EEC frequently undermines New Zealand sales efforts in developing markets.

New Zealand now has 65m kilograms of butter in store—accumulated from the last two seasons.

In view of the huge stockpile held in the EEC, New Zealand has little chance of selling its own surplus butter, and the prospect of adding to it this year caused the Dairy Board considerable alarm. The surplus is costing a lot in storage charges, but the Dairy Board chairman, Mr Jim Graham, says it should be considered as worthless and written off.

A unique proposal to turn the world's butter surplus into cooking oil through a joint venture has been put to the EEC by the New Zealand Dairy Board. This could be sold in Asia in an orderly marketing scheme.

It is suggested that the EEC, Australia and New Zealand combine to turn about 1.4m tonnes of surplus butter into oil. The oil would be marketed in Asia through a jointly operated marketing concern.

If the EEC agrees, New Zealand will be willing to go to GATT to lift the minimum world prices for all dairy products.

EEC agricultural ministers have shown considerable interest. The Dairy Board proposal was followed up by the New Zealand Prime Minister, Mr David Lange, and the Minister of Overseas Trade, Mr Mike Moore, during visits to Europe in June.

The price for oil made from butter would be in the US$200 to $300 a tonne range, but the proposal would achieve what at present seems an impossibility—getting rid of the world's butter mountain and lifting world dairy prices.

In the past, the New Zealand Dairy Board has been concerned with selling its own production and looking after the interests of the nation's dairy farmers. It is a sign of its concern and of the perilous state the world dairy industry has reached that New Zealand is prepared to help co-ordinate a joint international proposal to dispose of the dairy surplus.

One reason for this action is that members of the Dairy Board are closer to producers than officials and bureaucrats in the EEC and other countries. Many members of the board, including Mr Graham, are dairy farmers themselves and know from firsthand experience just how perilous is the plight of the individual dairy farmer and the dairy industry.

More than a third of the country's 14,600 dairy farmers are in trouble economically.

Until now, the Dairy Board has been able to provide a guaranteed price to farmers for their butterfat. Last season this was $4 a kilo for butterfat which sold on the world market for only $2.60 kilo. The board's funds and access to money are now drying up.

Two weeks ago, the Government guaranteed Dairy Board borrowing of up to $650m. Even with this loan assistance, farmers can expect no more than $3.25 a kilo for butterfat in the coming season.

No other dairy farmer in the world is as vulnerable as the New Zealander to depressed world prices. It is the only country where the farmer's income is directly related to the return from overseas markets.

The dairy industry in New Zealand—and the general public—still find it hard to understand why EEC officials continue to boost dairy production when it is costing them heavily to do so.

In the early 1970s, New Zealand sold 165,000 tonnes of butter to Britain each year. This year, under the EEC restrictions, the quota maximum was 79,000 tonnes.

For the coming year it was set at 77,000 tonnes and for the following year 75,000 tonnes.

There are some countries in the EEC, however, which want to go back on this agreement and cut New Zealand's quota even further.

Every thousand tonnes taken from New Zealand's European quota will make a big difference to the economy, not only of individual farmers but to the country as a whole. New Zealand negotiators have tried to point out that any further tonnage forced out of the UK will have to be sold in what is now a traditional EEC market.

Dai Hayward

Wool

Rapid response becomes the key

THE New Zealand Wool Board will adopt a new and more commercial approach to marketing over the next year or so, as it faces up to the double challenge of maintaining the real financial return to growers, and the need to operate efficiently in the new deregulated environment into which the national economy has been thrust.

The board has already started a comprehensive review of its various policies. It is examining all aspects of its operation, ranging from its intervention activities in auction sales to the manner in which it maintains the floor price for wool.

The need for a review and the urgency of developing policies best suited to the new, fast-moving, commercial environment was highlighted by the warning that the government intends to withdraw the board's access to reserve bank funds. Other farm producer boards have also had to live with the withdrawal of access to plentiful and low-cost finance.

The board will not abolish a minimum or floor price which at present is required by statute. The floor price is regarded as essential to ensuring that wool growers receive a reasonable return for their wool. The board will, however, probably introduce a new method of operating and maintaining the floor price.

At present, the floor price is guaranteed for one year. One change may be to reduce the guarantee period.

Changes may also come in the way wool is sold from the stockpile. In the past, the Wool Board has rejected direct approaches from potential buyers, preferring instead to dispose of stockpile wool through the auction system or to exporters.

This situation could change. During the past season, the board, anxious to take advantage of some sales opportunities, had to move more quickly than usual to move wool from the stockpile. The need for greater urgency to clinch deals may increase in the future. The board, conscious of its obligation to obtain the best possible deal for the New Zealand industry, wants the ability to move quickly, when necessary.

The board is already becoming more commercially involved in the wool market. In future, it will take a more commercial approach to its overall activities and to its own dealings in wool from the stockpile.

With the 1986-87 New Zealand wool season just starting, there is increased confidence in the wool industry and a feeling that prices will improve. Last season — which ended on June 27 — the average across the board price was down 9 per cent on the previous year's average of 377 cents a kilo.

After a slow start to the season, with depressed prices, during which the wool board was extremely active, buying large quantities to underpin the market, the season improved—especially in the last six months. Closing sales, in which some fine wools brought 50 cents a kilo more than in the opening sales, promised a continued improvement in the new season.

Interest rates in New Zealand have started to fall. From their average of 24 or 25 per cent earlier this year, interest rates at the beginning of the new wool season are being quoted at 20 per cent or below.

This will encourage buyers, especially those who need to hold stocks.

Last season, the extremely high interest rates and unexpected strength of the NZ dollar against other currencies, including Australia and the US, had a significant, depressing effect on the NZ market.

As predicted last year, currency fluctuations and exchange rates were more important than actual market demand in affecting the level of sales and prices of New Zealand wool in the auction ring. The weak Australian dollar and high NZ dollar encouraged many buyers, particularly from Japan and China, to switch some orders for fine wools away from New Zealand to Australia.

The Chinese were late coming into the market, although in the end they bought sufficient to put them among the top four customers for the season. Wool men hope they will be back early in the new season.

Over the past decade the New Zealand wool industry has established strong links with China, and this is paying off in Chinese buying orders for New Zealand wool.

Earlier this year, New Zealand and China established a joint venture wool scouring operation. This was the first New Zealand-China joint venture, set up in New Zealand, and the first anywhere in the world for the Chinese textile industry. Earlier, New Zealand had helped China set up a yarn-making industry. These connections nelp focus Chinese buying attention on New Zealand wool.

However, that did not deter the Chinese buying less fine wool last season when they felt it was commercially advantageous to go elsewhere.

The market for coarse wools —used in carpet-making and other manufacturing — are expected to improve this coming season.

Several countries, including Italy and others in Western Europe, are forecasting improved consumer demand. New Zealand wool exporters believe world markets will improve and the demand for wool will be on the rise. Most mills now tend to carry a minimum of raw materials so as soon as production picks up they need more stocks—and usually need them quickly.

The New Zealand wool clip this coming season is forecast at the same level as last year—350,000 tonnes. The Wool Board ended the season with a stockpile of around 120,000 bales—enough to give stability to the market, but not enough to create any real problems in its orderly disposal.

Dai Hayward

Ashley Ashwood

Buyers inspect wool stocks at the Wiri Wool Store auctions, near Auckland

The Meat Industry

Crisis all round

THE NEW ZEALAND meat industry, and particularly the lamb industry—once the envy of the agricultural world—is in the midst of a severe crisis which will force radical changes in traditional thinking and operating methods in both the farming and processing areas.

Prices at the farm gate have collapsed, farmers incomes are cut in half, animal numbers are falling, the huge killing and processing works have substantial excess capacity and processing costs keep climbing.

The works themselves are being taken over or merging to form fewer ownership groupings, while spending on fertiliser and other production aids is drastically cut back. Furthermore, land values have nose-dived, agricultural-based support industries and companies in rural towns are going out of business, while many debt-ridden farmers face the loss of their farms in forced mortgage sales.

Some forced sales have already taken place. One farm with a Government valuation of NZ$450,000 was sold for NZ$150,000. The farmer walked away without a cent—the sale price was needed to pay off debts and mortgage on the land. The buyer was reported to be a city merchant banker.

Many other forced sales have only been delayed because agricultural finance companies, holding mortgages on farms, are reluctant to foreclose for fear of opening the flood gates and sending land farm prices crashing even further.

Gross income for farmers this year is down 22 per cent. Net income per farm is estimated by the Ministry of Agriculture at only NZ$14,000—a drop of 52 per cent. This is well below the average weekly wage and is NZ$2,000 a year below the minimum income level set by the government in fixing supplementary income welfare benefits. Many farmers now qualify for this welfare.

Export lambs

Meat farmers are earning their lowest net income in real terms for at least 25 years.

The farmers' plight is caused by a combination of factors—extremely high interest rates, the strong New Zealand dollar, which reduces prices paid to the farmer for export meat, the removal of Government subsidies, the scrapping of some tax benefits, lower world prices, competition from relatively cheap, dumped EEC beef, increased labour and processing charges and, in many instances, overcommitment on debts and borrowing by farmers who are now unable to meet interest repayments.

The Meat Producers' Board is also undergoing a change in direction and attitude. Its former high reputation has been tarnished with the revelation that the board has lost $1bn through its price-smoothing scheme in the past three years.

Three years ago, the board took control of all marketing of export lamb from the meat companies when it was not satisfied with the price the companies were offering to farmers.

Earlier this year, the export companies said they would be willing to take back responsibility for marketing the lamb next season.

The board objected — and when the Government supported the meat companies, the meat board insisted that companies take back control with only a few weeks' notice and not wait for next season.

Prices for export lambs have fluctuated, but the season's average is around NZ$14. Last season's average was NZ$24.21.

For poorer quality animals, processing charges are often almost as much, and, in some cases, even exceed the purchase price offered to the farmer for his lamb.

This season there will be about 3m fewer lambs killed for the export and domestic maket. During the first six months of the season, from October to March, the lamb kill dropped from 24.21m to 10.7m, a fall of 55 per cent. Killing was interrupted by the costly, five-week meat workers' strike in February.

The five-week strike for a $35-a-week pay rise hit farmers at the peak of the season. The worst effects were partly relieved by an excellent growing season so farmers had more grass and could hold their lambs on the farm longer. As a result lambs now being killed are much heavier.

Total lamb export production will be around 450,000 tonnes for the season.

Declining stock numbers means fewer lambs for processing. Meat works now have surplus processing facilities. Fewer animals being processed increases the processing cost per lamb. Meat companies are looking to amalgamation, closing down some works and introducing more productive less labour-intensive operating methods.

The powerful Meat Workers' Union has successfully opposed major changes to the traditional chain method of processing, which with a few general improvements has been used in New Zealand lamb processing works since the turn of the century.

With this method, butchers, standing shoulder-to-shoulder, perform the same cutting operation on each of the hundreds of lambs carried past them on a moving chain.

Meat companies have also been reluctant to introduce shift working—partly because of the extra capital costs needed for down-stream facilities, such as expanded freezer chambers and holding-pens, but also partly because of adverse trade union reaction.

Now, however, the union, conscious of the threat to the industry, could be in a more co-operative mood as members return to work after their bitter strike without gaining the NZ$35-a-week which they demanded—and this has weakened their militant stance.

Some meat processing companies are gradually introducing more mechanisation. Others are talking to the union about new processing methods which could eliminate the chain system. The overall objective is to cut production costs and labour charges.

The most controversial move, however, will be the plan to shut down several freezing works—either completely or partially. Ownership of meat-processing companies has been concentrated into two or three main groups as the result of mergers and take-overs. The international meat traders, Thomas Borthwick, recently sold its extensive New Zealand operations and moved out of the country after almost a century.

The Vestey group has expanded its holdings by acquiring the meat operations of Dalgety, while Waitaki and the Auckland Farmers' Freezing Company—two big, locally-based meat companies—have both expanded their operations.

The companies are now looking to rationalise production. By closing down one works they could direct more lambs through a neighbouring plant, thus obtaining economies of scale.

Marketing

A special task force has been set up by the employers to consider how best to "rationalise." It is likely to recommend setting down more than half of the 40 processing chains now operating in North Island and concentrating all lamb processing through about 18 chains. This would be the equivalent of closing seven large meat works.

As yet, very little has been said publicly about the possible closure of some meat works. This move would be sure to arouse widespread public reaction, as many provincial towns would be hard-hit by the closure of a works and the loss of hundreds of jobs. In some areas the meat works is the major industry.

The new season starts in October. It is probable that at least five—and possibly as many as seven—works could remain shut when the season gets under way. There is in New Zealand a growing acceptance that the meat farming industry, as well as the processing end of lamb production, must change direction.

Prime Minister David Lange has frequently told farmers they must become market-orientated, rather than production-orientated. Under the previous government of Sir Robert Muldoon, millions of dollars were handed out to farmers in the form of production bonuses. Some farmers collected NZ$30,000 or more from these government payments which were based on the number of animals on their farm.

As a result farmers continued producing without regard for what the international market wanted—or the price it would pay for the product.

Under the new Government, the farming industry and the processing industry must both stand on their own feet and become efficient and profitable if they are to survive.

Government ministers have repeatedly told meat farmers they will have to suffer a lot of pain before the industry rights itself. They certainly did not exaggerate—as the painful plight of New Zealand meat farmers and the entire meat industry now testifies.

Dai Hayward

Fishing Industry

A new export earner

FISHING, especially deep-sea fishing, is seen as a key industry in New Zealand's attempts to diversify away from its dependence on pastoral products as its main export earners.

While current knowledge about the total allowable catch (TAC) suggests that fishing will not, in the foreseeable future become the main export earner, it is possible that in five to 10 years New Zealand will earn over NZ$1bn from fishing and the related processing industries, equivalent to 10 per cent of total exports or the same amount as tourism brings in at present.

There are roughly 1,000 inshore fishermen, defined as small, one or two-man operations with vessels of up to 25 metres in length. There are over 40 known commercial species of fish in New Zealand waters and the vast majority are caught by the deep-sea fleet.

With a lot of coastline and a relatively small land mass New Zealand's 200-mile exclusion zone gives it one of the largest fishing areas anywhere in the world. The country does not have much of a shallow continental shelf, however. The shelf slopes away rather steeply quite close inshore, which means that deep-sea fishing is deep indeed.

The industry is still in its infancy. Just over 10 years ago it accounted for something like 2 per cent of total export earnings. So scientists are still actively working on what the safe, renewable total allowable catches should be.

Apart from the main demersal species (bottom feeders) found deeper than anywhere else in the world, some species like hoki are longer-lived than, say, North Sea cod, and therefore subject to different conservation criteria.

At the moment there is a total allowable catch of 450,000 tonnes a year. Of this some 300,000 tonnes are allocated to New Zealand companies either using their own vessels or through charter companies. Some 100,000 tonnes are earmarked to be caught by foreign countries fishing under licence. At least this is the amount which the three main foreign countries, the Soviet Union, Japan and South Korea, have usually been allowed.

Some 10 per cent of the 100,000 tonnes quota is offered to domestic concerns on top of the 300,000 tonnes allocation. If the New Zealand companies don't want the extra amounts the foreign interests are allowed to take them up.

The foreign counries pay a fee of $15m a year which is reckoned to be equivalent to 5 per cent of the estimated landed value. The foreign vessels land very little of their catch in New Zealand. If the licence fees sound low, it is perhaps because the areas that the Russian, Japanese and South Koreans are

CONTINUED ON PAGE 7

Forestry Products

New commercial structure

NEW ZEALAND'S State Forest Service, which owns just over half the country's huge planted forest, is poised to become a major force in the international timber trade with the separation of the service's commercial activities from its extensive conservation and environmental operations.

This—and the phasing out of the previously big tax incentives for forestry development—is creating considerable turmoil in the New Zealand forestry industry.

Critics claim the cancelling of Government grants to small growers and the ten-year phase-out of tax incentives, which in the past have contributed millions of dollars to the balance sheet of big forestry companies will set back forest planting and expansion in the short-term. This prospect is probably true and already there are signs of a slow-down in forestry development.

The forest industry, like all New Zealand agricultural-based industries, is also feeling the effects of the country's economic downturn. It is, however, the proposed concentration of the commercial activities of the State Forest Service into a highly competitive "hard nose" commercial operation, run like a limited liability company, which is creating the most controversy.

The move is part of the Labour government goal to make state-owned operations more efficient and more commercially orientated.

For almost a century the State Forest Service has had a dual role: on the one hand the planting, development and milling of both planted and native forest and, on the other, conservation and responsibility for forest environmental issues.

Frequently the two roles were *in conflict and civil servants in* the same government departments often found themselves at odds with their colleagues.

It was the need to resolve this problem which started the Forest Service overhaul. The Government was then quick to seize the opportunity to break the Forest Service into separate parts and impose its increased commercialisation policies.

The Forest Service is certainly in a position to make a major impact in commercial forestry. It owns more than half of the 1m hectares of man-made forest which is now the mainstay of the country's timber industry. The commercial giant in the private sector—NZ forest products—owns 17 per cent of planted forest with the remainder shared between smaller private forestry companies.

Arguments

Critics of the new commercial approach by the state claim that the Forest Service will have a monopoly control over the extensive state-owned wood resources. Supporters are quick to point out that 70 per cent of the wood cut from state-owned forests is committed to private companies under long-term contracts while the state itself owns only 10 per cent of the countries milling capacity.

They argue the new commercialised structure reflects not only the changes in New Zealand's political policy but also new emerging international attitudes towards forestry. In the past few decades much of the world's forestry expansion has been encouraged by a widely held international belief, supported by Government policy and funding, that forestry is a highly respectable and praiseworthy activity for governments to support.

New Zealand certainly has shared these attitudes since World War II. Korea, Japan, China and Scotland, along with other countries, have carried out massive tree planting projects. China, for example, planted an impressive 4m hectares of new forest—in a relatively short time.

The virtues of forest-planting are that it also helps to promote regional development and makes countries more self-sufficient in timber, thus reducing costly imports. Furthermore, in the words of one New Zealand forest man, "It reclothed the Motherland."

In some countries, planting *trees helped to develop a* symbolic and almost spiritual attitude towards the environment. These views certainly apply in New Zealand where "the bush" has an important place in the *cultural* heritage and folklore. Now there are questions as to just how economically-viable some of these plantings have been — and whether the investments in new forest planting, which takes a quarter of a century to return a financial profit, could be more profitably placed in other areas.

New Zealand forestrymen believe the changing attitude will be increasingly accepted in *other wood-producing countries.* Undoubtedly, the new commercial structure which requires forestry officials to prove they can run a worthwile enterprise sufficiently economically and, most important of all, profitably, is coming just as New Zealand enters a period in which marketing and sales of timber will assume vital importance.

Current wood production in New Zealand is 10m cubic metres a year. Export sales are worth NZ$766m. Forestry production will double by the early 1990s and, by the beginning of the next century, will be 24m cubic metres.

Despite increased demand for pulp and paper manufacture, export markets must be found *for most of the increased supply* coming out of the country's vast plantations over the next few years.

The new state commercial forestry operation will have to play a major *role finding these* new international markets. At present, Australia, Japan and the Philippines are New Zealand's biggest export markets.

Prices for pulp and paper exports are weaker than last year, but are starting to recover.

Dai Hayward

Ashley Ashwood

Log transportation at New Zealand Forest Products plantation at Plateau Area, North Island

Horticulture

Kiwifruit still a glamour crop

NEW ZEALAND'S thermal steam and boiling water are now used to create artificial "monsoon" conditions to help grow orchids for Japan.

The combination of geothermal energy and a new technique encouraging orchids to bloom when required, has boosted orchid exports at the time Japanese demand—and prices—are at their peak.

Cheap energy from two bores sunk deep in the earth in New Zealand's thermal area, near world-famous Rotorua, create monsoon-like humidity which induces the plants to bloom at pre-determined times.

The flowering period is timed to coincide with Japan's holiday, festival and wedding seasons when orchid prices *are high.* These can vary in Japan, according to demand, from NZ$1.50 to $9.50 a bloom. Thus, getting more flowers on to the Japanese market in the top selling period *gives a big boost to the value of* New Zealand's orchid exports.

Japan, with 31 per cent, is now the major market for New Zealand's NZ$10m-a-year cut-flower export industry. Orchids, *producing almost $4m* a year, are the most profitable flower export, followed by roses and carnations.

Australia was originally the main outlet for New Zealand's cut flowers, *mainly* because it was the nearest market. The development of more economical long-distance air freight services along with success by New Zealand growers in producing blooms *specifically* appealing to different countries, has seen Australia slip into fifth place as a market for New Zealand flower growers.

New Zealand roses appeal to *Canadians. This makes* Canada the second most important flower market for New Zealand growers. Canada takes 19 per cent of all New Zealand's flower exports, but 70 per cent of the *rose crop.*

New Zealand roses have a high reputation among florists and flower markets. New Zealand is the only country in the world to eradicate the costly crown gall disease from commercial nurseries. This disease, which also attacks some other plants including peaches and hops, causes cancerous-type woody lumps on the stems and roots. The plant becomes sickly, withers and fades.

When the disease strikes, it is not uncommon for up to 40 per cent of a crop to be uprooted and destroyed.

In New Zealand a microbiological company has developed a protection using a "friendly." bacteria which prevents the disease.

As more varieties of New Zealand flowers find their way into homes in the US, Hong Kong, Singapore, Italy and other European countries, the value of cut flower exports increase. This year they will be worth $10m—a jump of 40 per cent.

However, as flower growers scrambled to join the export market, there have been problems of over production and shipping of some poor quality flowers. More effort is *now going into producing* and maintaining high standard, high quality blooms.

Although the cut-flower industry is increasingly important, it is still only a minor part of New Zealand's rapidly developing horticulture export trade. This year horticulture exports will be worth NZ$700m — almost NZ$200m more than last year. The target of *NZ$1bn export earnings* from horticulture by 1990 looks as though it will be comfortably achieved.

Horticultural exports include the traditional and long-standing New Zealand apple trade. This season 156,000 tonnes of New Zealand apples will go to markets around the world. About two-thirds will be eaten in Britain and EEC countries.

New Zealand applies now face increasing competition in the northern hemisphere from Chile and South Africa.

As the EEC market becomes *saturated,* New Zealand apple-growers are introducing the fruit to new customers and are also turning a lot of the crop into apple juice or combination drinks. They are constantly working to develop new varieties or apples to retain customer appeal for the fruit. One breeding programme started 15 years ago to produce new varieties is only now starting to show results.

Kiwifruit remains the glamour crop of the horticulture industry. Its phenomenal success on world markets which, in the early days, created many New Zealand millionaires, quickly boosted it to one of the country's most important export crops. This year was a bad season because the bees were not able to pollinate the crop adequately.

As a result, many fruits were undersized. This was a bonus for New Zealand domestic consumers as they were sold on the local market way below previous prices.

Despite this setback, the Kiwifruit export crop is estimated at 31m trays this season —a jump of 36 per cent on last year. Exports, in the year ended March, earned NZ$236m.

Almost one third of Kiwifruit shipments overseas go to Japan which offers the best prices. Europeans have also developed a growing taste for the hairy, brown fruit with its delicate but *distinctive* flavour.

D. H.

Wine Industry

Eye on quality export markets

WINE PRODUCTION in New Zealand is another young industry which, in the view of the present Labour Government, was over-protected and overstimulated by the previous National government.

The result is a cumulative surplus — a lake — of domestically produced wine of just under 30m litres. By the end of 1975 some 73m litres had been made while annual consumption, at *15 litres a head,* was 45m litres.

The present Government is trying to rationalise the industry by funding a wine extraction programme, by re-ordering *tariffs and import licensing* (which make imported wine, even from Australia, prohibitively expensive) and by removing other subsidies and supports of various kinds, *thereby hoping to get rid of* the surplus and bring about more efficient production.

The removal of direct subsidies is a feature of the Government's policies throughout agriculture. It does not want to run down the wine industry or abolish it but is interested in production continuing both to save on imports and, in the longer term, as an export at the quality end *of* the market.

Grape-growers and wine makers have long been in business but they primarily used hybrid vines to produce bulk *varieties, or what the Government* Commission which recently reported on the industry calls fortified wines.

More recently, growers have moved into what Mr Roger Garrett, *a wine expert at the* Ministry of Agriculture and Fisheries, calls premium wines. They are growing chardonnay, sauvignon blanc, strains to make dry white wines, and cabernet *and pinot noir varieties for red* wines. In between, as Mr Garrett puts it Muller Thurgau is used to make medium-dry wines.

There are, or were until recently, some 6,000 hectares under *cultivation in five main* growing regions. Poverty Bay, Hawke Bay and around Auckland in North Island, and Marlborough and Canterbury in South Island.

The average *holding is* reckoned to be 10 hectares. There are some seven main wineries and possibly 80 smaller ones. A lot of grapes are "bought in" by the wine-*makers. The Government Com*mission's report estimated that of the 74,900 tonnes which might be grown in 1986, half will be grown by independent producers and half by wine-*makers themselves.*

There are four large wine-makers and marketing companies: Montana, Cook McWilliams, Corbans and Penfolds. These labels dominated *the restaurants, taverns and* hotels of New Zealand.

Under the Government extraction scheme, which should have finished earlier this year, growers were offered a total of *NZ $9.6m to pull up 25* per cent of planted area. Some 1,500 hectares of vines should have been taken out by March this year. This does not mean there will be a 25 per cent reduction *in the output of wine. Some of* the vines extracted were diseased or old. Many of the younger ones left in the ground are only just coming to maturity and are often higher yielding.

The Wine Institute, on whose information the government commission has based its appraisals, estimates that production this year should be 52m litres.

Supply and demand should therefore start coming into line. Consumption per head this year is put at 15.86 litres. This is not only because of the extraction schemes but also *becaus of the removal of sup*ports. One of the most important supports is the abolition of standard values for *taxation purposes.* This is a stock evaluation scheme widespread throughout agriculture which allows stock to be written down against tax.

For example, if a company *has wine in store worth $1,000* it can write the value of this down to $200 and claim the $800 as a tax loss. The tax loss is good only until the wine is sold. Even so, it seemed to *be worth the growers' while to* indulge in it because of the "wine lake." The Government recently hinted that it was going to modify its own new rules on standard values, but *probobaly not for wine.*

Nearly all the wine produced in New Zealand is consumed domestically. The Wine Institute estimated that of the 15.84 litres per head consumed in *1986, 11.2 litres will be of table* wines, 3.8 litres of fortified wines and only 0.7 litres of imported wine. There are projections of growth in consumption of up to 4 litres per head *by the end of the decade.*

But some experts believe the producers will have to do something about price. Although consumption per head is low by European standards, quality *wines are proving* price-elastic. The cost of packaging and distribution is as much as half the retail price, though this could change if the materials become available locally or if imported *prices drop as New Zealand* frees its trade.

The complex reordering of duties and taxes recommended by the Government Commission would make it expensive to *import quality wines* and cheaper to import fortified wines. The idea seems to be to try to liberalise the wine market at the bottom but afford some protection at the quality *end so as to build the reputa*tion of New Zealand wines with one eye on exports.

Prospects for fishing

CONTINUED FROM PREVIOUS PAGE

given are the least attractive and hospitable parts of the New Zealand zone. They are moreover, areas where the domestic companies often have neither the means or the incentive to fish.

The Russians, in particular, seemed to have done rather badly in the allocations. Because of the 1979 Soviet invasion of Afghanistan, their trawlers have been consigned to Area E, south of Stewart Island at the end of South Island, where fishing is a high-cost business with fewer fish per sq km than elsewhere.

The domestic quota is split up between eight or nine New Zealand companies. The best-known is probably Fletcher Fishing, part of the large Fletcher Challenge holding company, and Sealord, an offshoot of Carter Holt Harvey, another of New Zealand's big manufacturing industrial concerns.

These groups would typically bid for quotas of around 25,000 to 30,000 tonnes each year. Some companies run their own ships. There are probably 30 New Zealand-owned vessels more than 30 metres long and some are up to 80 metres.

In addition, there are probably around 20 charter vessels, a fair number from Humberside in Britain. They work on regular fishing for a fee, although it is not unknown for these charter groups to take a share of the catch as payment.

The catch roughly divides up into 40,000 tonnes of orange roughy, some 50,000 tonnes of hoki and about 90,000 tonnes of squid, with many other species making up the remainder. The Japanese are especially interested in squid, while rock lobsters fetch a good price.

The star seller, though, is orange roughy, a deep-sea perch. It was almost unknown five years ago until a Germany company working under licence in New Zealand discovered it. Orange roughy became a great favourite in the US. A light delicate fish, it also sells well in Japan and Australia.

Mr Russell Armitage, of the Fishing Industry Board, reckons that New Zealand can easily sell the 40,000 tonnes of orange roughy abroad, although exports of fish are about 80 per cent of the total catch.

The scientists also say there could be a total allowable catch of 500,000 tonnes of hoki and Mr Armitage expects that the quota will be at least doubled this year.

The potential for processing hoki is believed to be great. The Japanese have perfected a process known as surimi. It involves grinding hoki, which is of the hake family, down into a *paste or mince and then making* it into mock crabs' legs and other processed products.

There would seem to be great potential in the value-added or processing side of the industry —not so much in canning, since cans have to be imported, as in filleting, boning and freezing. It is believed that at the present the landed value of the catch is probably around NZ$250m. There is also an added value of some NZ$150m for the domestic market and probably NZ$500m for exports.

Stewart Dalby

Diversifying in Livestock

Interest in goat and deer farming

WITH a climate and topography ideally suited for grazing, New Zealand has been looking at various forms of livestock as a means of diversifying away from its heavy dependence on sheep and dairy herds.

Two alternatives now being pursued are goats and deer. There have been goats in New Zealand since Captain James Cook introduced them in the second half of the eighteenth century and as they ate almost anything they were found to be useful as "weedeaters."

Until recently feral (wild) goats were hunted mainly by sportsmen, often because they had ceased to be useful weed-eaters and had become pests. A few of them were kept as pets or to produce milk and cheese for those who did not like cow's milk.

By 1982 there were still only 58,000 goats registered as stock units. In the late 1970s, however, as the terms of trade for lamb, mutton and dairy products continued to decline and new exportable products were sought, it was found that there was a large and partly unfulfilled market for goat hair—mohair, cashmere and cashgora, a blend of the two.

As often as not it was farmers' wives who, having kept a few goats as a hobby, started building up the business. Only South Africa, Texas and Turkey now produce mohair in significant amounts. According to the Mohair Producers' Association, half the world market for mohair is unsatisfied. If New Zealand producers could gain half of that, then by 1995, it is estimated, there could be export earnings from mohair alone of NZ$160m.

The market potential for cashgora, a product unique to New Zealand, is unknown because it is so new. But earlier this year, according to one report, an unnamed Swiss concern closed a deal for NZ$30m worth of cashgora over an unspecified period. At the present, exports of all goat-hair fibre are worth only $5m.

The problem with maintaining production is the severe shortage of angora goats. Originally found only in the Angora region of Turkey, they have become scarce in New Zealand. Although introduced in the Bay of Islands in the north of the country as long ago as the 1860s, they cross-bred with feral goats in the wild and their distinctive pedigree was lost.

While cashmere can in some circumstances be produced solely from feral goats, mohair, the product currently most in demand, comes ideally from Angora goats. Mohair is the primary follicle in the 20 to 30 micron fibre range. Cashmere is the fine down *at the roots of* the hair. It is shorter than mohair and in the 16 micron range.

Angora goats can be imported from Australia and elsewhere but are in short supply, so that in an auction at Whitangi sale earlier this year a top stud buck fetched NZ$63,000. Top breeding does can fetch anything from $5,000 to $20,000. Current prices for mohair are something like $17 per kg, compared with $7 per kg for lamb's wool. But until the herd has been built up it is, as the figures above show, the animals that fetch big prices rather than their hair.

To increase the size of the herd, Angora goats are being cross-bred with feral goats. After four generations the kids are considered pure-bred angoras. As if natural processes were not enough, there is a programme of ovum transplants to speed things up.

It may have been women hobby farmers who first realised the potential in goats, but their sheep-farmer husbands, who once considered goats fit only for shooting, have taken them up with a vengeance. There are now 226,000 goat stock units, a quadrupling in four years. Ministry of Agriculture officials point out that goats *adapt* well to mixed hill farming. They eat gorse and other weeds that sheep farmers have a hard time keeping down.

Some experts believe there could be a large market for goat meat, particularly in the Middle East. New Zealand at present exports just a few thousand tons of goat meat a year.

Deer, like goats, were until recently valued only for hunting or regarded as pests. Then, 15 years ago, it was found that the South Koreans valued the velvet—immature antlers which are ground down—as a tonic. Even more recently some other farmers found there was a ready export market for venison, particularly in West Germany.

A deer-farming boom was started, whereupon *wild deer* were rounded up by netting or stunned by anaesthetic pellets. Deer paddocks are now to be seen on pastoral farms throughout New Zealand. There are red deer, wapitis and fallow deer. As with goats, there has been a shortage of hinds and prices have until recently been as high as NZ$4,000 to NZ$5,000 a hind.

D.H.

Industrial successes and growing internationalism of New Zealand businesses are highlighted here by **David Dodwell** and **Dai Haywood**.

Market forces given free rein at last

"WE ARE in an international world now," commented Sir Ron Trotter, ebullient head of New Zealand's biggest industrial group, Fletcher Challenge.

As an exporter of meat and wool, New Zealand is, of course, as international as any in the world. But in the country's young manufacturing sector, decades of support from subsidies and protection behind tariff walls have made companies unusually insular.

Traditionally, those that entered the export market only did so when armed with export incentives—ensured of a niche on the world markets, albeit at the expense of the country's taxpayers.

The sea-change that genuinely swept the country's manufacturers into Sir Ron Trotter's "international world" was the election of a Labour Government under David Lange in 1984. Since then, radical and wide-ranging economic reforms have led to the dismantling of a labyrinth of subsidies and export incentives, and the demolition of tariff walls that traditionally kept foreign competitors at bay.

Looking abroad

New Zealand's manufacturers have been forced overseas to survive. With foreign companies—particularly Australian ones from across the Tasman Sea—keen to penetrate the tiny New Zealand market, the only clear defence has been attack.

Flag carriers have been Fletcher Challenge, whose interests span forestry, construction, *farm services and trading, and* Brierley Investments, the asset management group active in Australia, the UK and the US.

Takeovers by Fletcher Challenge of the ailing Canadian forestry group, Crown Zellerbach, and by Brierley of Tozer, Kemsley, the UK motor group, have demonstrated to more faint-hearted New Zealand corporations that home-grown companies can compete effectively overseas without state support.

For many New Zealand companies, "international" is likely to mean Australia for the foreseeable future. Companies such as the foods group Watties, or Feltex, the high-quality carpet *manufacturer, have already* established strong footholds. So have the investment groups. Equity Corporation and Chase Corporation.

The Goodman Group, always significant inside New Zealand as a food processor, has joined hands with Fielder Gillespie Davis and Allied Mills, both of Australia, to form an Australian foods group that can expect to be fiercely competitive worldwide.

The policy of Closer Economic Relations (CER) with Australia which is intended to remove tariff barriers to most trade between the two countries by the end of 1988, is likely to accelerate the trend under which Australian and New Zealand groups merge interests to ensure greater competitiveness worldwide.

The first area of assault has usually been the Pacific rim, particularly the west coast of the US. It should be no surprise, for example, that Fletcher Challenge last year sold 92 per cent of its NZ$517m overseas sales in Australia, Asia or the US.

Alongside manufacturing, New Zealand's financial services sector has been thoroughly internationalised over the past two years following the removal of restraints on foreign investment in the domestic market, and on investment overseas.

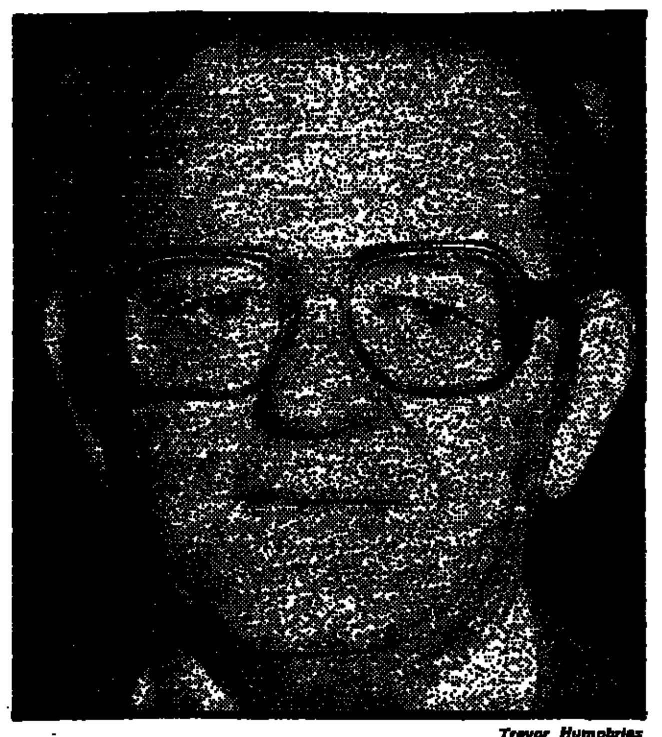
Mr Roger Douglas, the driving force behind the Labour Government's programme of economic reforms, foresees a day when financial services become a net foreign exchange earner for the country.

Whereas until recently, borrowing in the international capital markets was the exclusive prerogative of the New Zealand Government, an increasing number of local corporations are beginning to go overseas to meet their funding needs.

BNZ, the country's leading state-owned bank, has in the past month been given clearance to float shares in order to raise NZ$150m that will be used to aid and build up the international operations of the bank.

It may be some time before New Zealand boasts more than a handful of corporations that rank alongside international giants in the US, Europe, or Australia. But with the country's strong natural resource base, and market forces at last being given free rein, the impact of that handful is likely to become rapidly more noticeable, in the Pacific and beyond.

D.D.



Trevor Humphries

Sir Ron Trotter, chairman of Fletcher Challenge, New Zealand's biggest industrial group

Ever-widening horizons

THIRTY YEARS ago, Pat and Peter Goodman inherited a small, struggling family bakery in Motueka — a country town with a population of less than 3,000.

Today, the brothers control an international operation—the Goodman Fielder Group—which has a stockmarket valuation of more than NZ$1.5bn.

Goodman Fielder was formed through the merger of the New Zealand Goodman group and two Australian companies—Fielder Gillespie Davis and Allied Mills. Goodman Fielder is now in the top 20 Australasian companies. Its combined annual sales exceed NZ$1.7bn.

Pat Goodman, chairman of the new conglomerate, was formerly chief executive of the New Zealand Goodman Group, which itself has seen phenomenal growth over the past 15 years.

The creation of the new consortium fulfilled a long-term plan and belief of Pat Goodman and his brother, Peter, that large New Zealand companies had to think internationally if they were to achieve substantial future growth.

The creation of the Goodman Fielder group is not, however, the end of the expansionary programme. Once the rationalisation resulting from the joining of the three big companies is complete, it will look to further expansion in the US, Britain and to a lesser degree in the Pacific Basin countries.

Some of this expansion will be in the form of equity investment. The strength of Goodman Fielders will ensure it can take advantage of substantial investment opportunities, not only in its traditional areas of food, manufacture and marketing, but also in other fields.

Pat Goodman, in fact, already has specific plans for further growth of the group in both Britain and North America, but at this stage these are confined to the boardrooms of Wellington and Sydney.

Goodman was the largest of the three companies which started discussing a merger last year. They finally linked into the new, powerful food group on May 2 this year. Goodmans had a market capitalisation of A$500m at the end of last year. This compared with A$325m of Allied Mills and A$150m of Fielders Gillespie Davis.

Goodmans also brought the largest asset base in to the group — A$540m — compared to A$490m contributed by Allied Mills and A$250m by Fielder Gillespie Davis.

Allied had the biggest turnover of the three — A$715m — compared to Goodmans' A$435m, but the profit forecast showed Goodmans well in front.

The Goodman brothers, who gave their name to the big New Zealand company and who now play a dominant role in the new Australasian group, comes from a family of five generations in the New Zealand bakery business. They inherited some of the attributes of previous generations who are still remembered and renowned for their hard work and almost single-minded devotion to their business.

In their younger days, Pat and Peter Goodman worked long hours in the family bakery and then went out driving delivery vans over 80 miles of country road. It was common for them to work 16 to 18 hours a day.

In the 1950s, their small bakery, like many others in New Zealand country towns, had outdated machinery, was housed in a dilapidated building and provided little material reward for the hard work of the owners and staff.

The Goodman brothers realised that a new concept was needed, not only to improve the viability of their own family bakery but also for the New Zealand baking industry as a whole.

The threatened intrusion of a big city baker into the district provided the impetus for this.

They persuaded several regional bakeries to join a co-operative partnership which provided much bigger buying-power than the individual bakeries. Other bakeries throughout New Zealand soon joined the group. They became a nationwide name and forged links with an old-established company in the flour milling and grocery distribution business.

GOODMAN FIELDER GROUP

Soon Pat Goodman was to head that company which, in 1978, changed its name to the Goodman Group and adopted the Goodman business philosophy. This is to allow as much local autonomy and responsibility as possible. The results were rapid: in one year turnover more than doubled, from NZ$31m to NZ$72m. Assets climbed to NZ$50m.

Then followed a number of acquisitions and investments in other types of business. In 1980, Goodmans became a NZ$100m business and, as the company itself claimed, "it had developed high standards in the field of acquisition." In 1980 Goodmans acquired a 24 per cent stake in the huge New Zealand food processing company, Wattie Industries.

Watties acquired a similar share of Goodmans, with each becoming the other's largest single shareholder.

At the end of 1984 Goodmans sold its NZ$81m stake in Forest Products to Watties for NZ$95m, and needed the cash for a large investment in the big Australian company, Elders IXL.

By the 1982-83 financial year, the groups' annual sales were more than NZ$200m, double the level of only three years before.

It also applied a 24 per cent interest in New Zealand's biggest and most successful tourist operator — Newmans — a share which only this month it sold to an investment company. It also had a similar share of *the tourist airline,* Mount Cooke, recently sold to Air New Zealand.

Goodmans forged a link with Arnotts, the Australian biscuit company, by selling half of Aulesbrooks, its New Zealand biscuit operation. The profit gave it the finance for additional expansion in Australia. Arnotts bought the other half of Aulesbrooks this January.

The partnership with Elders gave both groups the ability to expand in both countries, but it also gave Goodmans greater access to international trading. Goodmans plan to market NZ consumer goods in Australia through Elders distribution network.

The Elders link boosted both turnover and profit. Last year Goodman group sales were up from NZ$172m to NZ$359m and profits from NZ$22m to NZ$45m.

When Goodmans invested $80m in the Australian food company, Allied Mills, early last year, this brought its Australian assets to 50 per cent of the company's total assets.

Last year, Fielder Gillespie Davis made an offer for both Goodmans and Allied shares. The result, after a year of protracted negotiation, was a harmonious merger between *the three* groups and the creation of Goodman Fielders. A small town baker now heads the multimillion dollar international company.

D.H.

Boost for nation's top exporter

FLETCHER CHALLENGE is not only New Zealand's largest industrial group—it is almost certainly its most international. In the words of one respected analyst: "It is too big to dominate a small market."

The group is the product of a merger in 1981 of three leading New Zealand companies—Challenge Corporation, Fletcher Holdings and Tasman Pulp and Paper.

As a combined group, it now accounts for 10 per cent of New Zealand's exports. It employs 22,000 people in over 30 major operating companies ranging from forestry and construction to trading and farm services. Last year it generated 46 per cent of its NZ$4.4bn sales revenue outside New Zealand.

The group has also mounted New Zealand's largest overseas acquisition—that of Crown Zellerbach (now called Crown Forest Industries or CFI) in Canada in March 1983. The purchase of this loss-making timber, pulp and paper group raised eyebrows at the time. But the group's success in bringing CFI into profit has silenced sceptics, and boosted the confidence of other major New Zealand companies by demonstrating that it is possible to compete in the international marketplace as effectively as any number of companies overseas.

Such a boost is well-timed, coinciding with the demolition of a system of subsidies and tariff walls that have for many years protected local industry against international competition.

Fletcher Challenge is also one of the few New Zealand companies to be listed on stock exchanges in Sydney and London as well as in New Zealand. Plans are being laid for its shares to be traded in the US by means of American depository receipts (ADRS).

By any country's standards, the group is substantial. As one analyst noted, its strength comes from the fact that "it is close to our natural advantages." Assets amounted to NZ$4.3bn at the end of 1985—NZ$1.2bn of them in Canada. Annual sales totalled about NZ$4.4bn, generating net profits before extraordinary items expected to pass NZ$180m, in the financial year that ended just three weeks ago.

While it has become rapidly more international in its outlook in the past four years, its traditional role as a trader, and as a supplier of newsprint and related products to the Australian market, has meant that it is more familiar with foreign competition than most of New Zealand's industrial groups.

In 1982, 29 per cent of annual sales amounting to NZ$2.2bn were derived offshore. In 1985 offshore operations had swollen to account for 46 per cent of sales totalling NZ$4.4bn.

A large part of this surge is accounted for by the acquisition of CFI, which now accounts for just over a quarter of group assets. In addition, the expansion of fishing operations—particularly its pioneering work in developing an international taste for the orange roughie, a deep-sea fish that was unknown five years ago—has also brought it into joint venture contact with Japanese groups.

Sales of newsprint have traditionally been strong into Australasia, often making the group see itself more as Australasian than from New Zealand.

This spread of international interests is clearly more across the Pacific than worldwide, a characteristic that is naturally enough common to most New Zealand exporters. In the financial year that ended in June last year, Australia alone accounted for 42 per cent of all direct exports.

If exports to North America and the rest of Asia are added, then a mere 8 per cent of exports were accounted for by Europe, the Middle East, and Africa combined.

THE FLETCHER CHALLENGE GROUP

This substantial foreign exposure has forced the group to develop a sophisticated knowledge of the international capital markets. With term debts amounting to more than NZ$1bn, it has had to go overseas to fund its development. Substantial overseas earnings, particularly from the operations of CFI in Canada, has prompted the group to seek out "equilibrium hedges" to guard against currency losses.

Apart from becoming more internationally aware, Fletcher Challenge has undergone major internal rationalisation since the 1981 merger—a process made more urgent by the serious economic downturn in New Zealand in 1983.

Apart from withdrawing from financial services with the sale of Marac and Broadbank, the group has disposed of more than 15 companies since 1981. Non-mainstream operations like Morrison Industries, which makes lawnmowers, or Great Outdoors, which makes tents, have been sloughed off, while major rationalisation has occurred in at least 16 subsidiaries that were either making losses, or were performing poorly.

The aim has been to concentrate on those areas where Fletcher Challenge can hope to achieve a dominant position in a market—accounting for up to 80 per cent of sales in a sector.

Strategy has also aimed at reducing dependence on any one geographic area, and on any single unit inside the group. Mr Geoff Whitcher, group corporate affairs director, notes with some satisfaction that from a point in 1981 when Tasman Pulp and Paper accounted for almost half of group earnings, the group in 1986 will have no unit contributing more than 17 per cent of total earnings.

Tasman Pulp and Paper, punished by a six-week lock-out late last year, is likely to report losses with no conspicuous damage done to the group's overall profits performance — a prospect that would have been inconceivable five years ago.

Rationalisation continues even today. A merger of Wrightson NMA, the group's farm services subsidiary, with Dalgety, the country's other main farm services group, is close to completion. Reorganisation of operations in the depressed meat sector is also imminent: "Let us just say that we are not happy with the status quo," says Mr Whitcher.

Unlike many companies that have protested fiercely at the economic reforms being introduced by the Lange Government, Fletcher Challenge has, by and large, welcomed the changes. This is despite the fact that the group could potentially have more to lose than most as a result of the reforms.

For example, as the country's leading exporter, it has in the financial year just ended received about NZ$48m in export incentives. This bonus will disappear at the end of 1986, but according to Sir Ron Trotter, Fletcher Challenge's outspoken chairman, it will not be mourned.

"Even the best managements failed to achieve what they were capable of because of the stifling business environment we lived in before 1984," he commented recently: "Now all sorts of companies are questioning all sorts of myths."

Among sources of continuing worry for the group are the strength of the New Zealand dollar, particularly against its Australian counterpart, and the serious labour problems that continue to dog New Zealand industry.

According to Mr Whitcher, every time the New Zealand dollar strengthens by 1 cent against the US and Australian dollar, then on an annual basis, NZ$4m is wiped off earnings.

On the industrial relations front, Sir Ron Trotter is looking to planned labour reforms for relief.

"There seems no reason whatsoever to conclude that New Zealand is best-served by an industrial relations system dating from 1894," he told the National Press Club in May.

Whether he wins the relief he so keenly seeks from a Labour Government that has its roots deep in the trade union movement, is a matter of energetic debate. Whatever the outcome, there seems little doubt that Fletcher Challenge will continue to be a pace-setter among New Zealand groups determined to make the country's domestic industry competitive by any international yardstick you care to take.

D.H.

Big sales drive in the UK, Australia and US

NEW ZEALAND's most popular beer—Steinlager—is about to launch a major drive to become first favourite with beer drinkers in Britain, Australia and the US.

Steinlager, a premium brew produced by the Lion Corporation, has already achieved remarkable success and growth in some markets. But now the company—New Zealand's largest brewing and hotel group—plans to spend millions of dollars putting the distinctive little green bottle into the hands of millions more of the world's beer drinkers.

Total sales of the company in the year ended March 31 were NZ$821.6m. Beer exports, practically all Steinlager, reached 6m litres—not large compared to total production, but a useful base from which to launch an international three-nation sales drive.

The beer first appeared in Britain two years ago, but has been confined mainly to limited outlets in the London area. Reaction from lager drinkers has been encouraging, so during the next few months the New Zealand-brewed and bottled product will go on sale throughout Britain.

The accolade of "Best Lager in the World," awarded the brew at Brewex (the international Brewing Exhibition) in Birmingham last year, has encouraged the move to expand sales in the UK.

The recent round-the-world Whitbread Yacht Race literally carried the Lion name around the globe. The New Zealand entry was known officially as *Lion New Zealand*. It was used as the basis for extensive promotions and to introduce New Zealand beers to the trade. Sponsorship of the yacht cost the company NZ$500,000, but it believes that every cent was worthwhile.

It is also using the Americas Cup challenge series in Perth later this year as a springboard for an all-out assault on the Australian market.

Australians, along with New Zealanders, are among the world's heaviest beer drinkers. A huge promotional campaign, capitalising on the intense interest in the Americas Cup, is aimed at Australian drinkers.

A nationwide campaign will also involve Australian rules football and other sports, but the Americas Cup will be the centrepiece.

The company is pouring NZ$2m into the New Zealand challenge for the series and is confident this will pay off not only in the two trans-Tasman countries, but also in the U.S.

Hundreds of international media representatives covering the Perth event will use a modern Press Centre equipped with the latest communication facilities—including a satellite feed. This is located in a hotel, in the heart of the dockland and will be the closest press facility to the bustling marinas.

The owner of the newly-bought hotel—and responsible for installing the equipment—is Lion. Naturally, Steinlager and other New Zealand beers will be freely available.

LION CORPORATION

To attract the Australian draught beer drinker, Lion has begun shipping draught beer in 50-litre kegs. These proved so popular in Perth that a special charter flight was arranged to rush extra supplies across between the regular shipments.

Marketing is also to be stepped up in the US. The beer was first introduced to Hawaii, where it quickly became the second most popular imported beer. The product was then launched in California; the sales campaign jumped across the nation to Florida and is now spreading north.

The taste, flavour and quality of the product has seen it rated top in competition against other US and imported beers. For four years in a row, it has won the prestigious Washington Wine Tasters' "Fine Beer Award"—an event which the company did not even enter. Its beer was entered by an enthusiast.

It has been discovered by American writers and ranked above Japanese and German brews. Steinlager has even been placed ahead of the firmly entrenched home-produced Heineken brand.

The success of Steinlager, with its 5 per cent alcohol content, along with the establishment of a range of premium beers, is part of a carefully co-ordinated drive by Lion. A few years ago the company forecast a levelling off in beer consumption and decided to introduce a range of different priced beers, with customers paying a premium price for what they regarded as the top quality brands—as do wine drinkers.

This plan appears to have worked. In the last financial year, tax paid profit jumped 56 per cent, up from NZ$28.1m to NZ$43.8m.

For many years breweries and beer drinkers have been a favoured target for successive New Zealand Government tax gatherers. Tax is the largest component in the price of alcoholic beverages.

Last year, Lion paid NZ$30.2m in direct taxation while the indirect tax collected by the Government on Lion products was NZ$198m.

For many years the company has been trying to persuade successive governments there should be a new approach to the promotion and taxation of beer. It has managed to convince the Labour Government to review all aspects of the sale of liquor.

To some observers, there will be irony in the fact that New Zealand's largest brewer is to spearhead a campaign to educate the public on the harmful side effects of alcohol abuse. Lion does not want a situation where a brewery has to continually encourage people to drink more beer simply to maintain its profit margins.

It is now building up other aspects of the hotel business including food, entertainment and accommodation. It aims to turn its premises more into family gathering venues than simply a place to drink beer.

At the same time it is making a NZ$70m investment to modernise brewing, bottling and production. All the Steinlager sold in Britain, and other countries, will be brewed and bottled in New Zealand. The company is determined to avoid the experience of some international brewers who, when they set up new brewing plants overseas, found their product lost a lot of its popularity.

D. H.

'Lion New Zealand' pictured off the Needles on passage from Easter Island, Panama, Bahamas and Cork

Moving offshore

DOWNER AND COMPANY, the construction and civil engineering arm of Cable Price Downer, has changed the physical face of New Zealand more than any other company.

It has built almost every major airport in the country for the last 50 years, constructed huge hydro-electric dams and is acknowledged as the country's leading tunnelling contractor. It has also built canals, pipelines, wharves, road bridges, shopping centres, water and sewage plants, as well as a whole range of commercial buildings from New Zealand's largest single-span aircraft hangar to hotels and an arts complex.

Downer has also played a vital role in New Zealand's energy development — huge open-cast coal mines, the complex gas to gasoline synthetic fuel plant, the Marsden Point oil refinery expansion—New Zealand's largest-ever construction operation. It has been involved in coal, oil and gas-powered thermal power stations. The Tiwai Point aluminium smelter has also been a major prospect for Downers.

Now the company is moving offshore. It believes that the future expansion of the group must come through overseas operations. Downer's chairman, Mr Bill Steele, a director of the company for 20 years and executive chairman for the past six, says the company can compete against overseas companies in their own territory.

It has already won big construction contracts in Fiji, Papua New Guinea and Palau, where it built the new airfield for the United States Navy.

This was a major undertaking: everything that was needed, from houses to kitchen utensils, had to be sent from

DOWNER

New Zealand. The climate also presented problems. In the winter, rainfall reached 370 cm, while in the summer there was such a shortage of water it had to be carried into the area.

For two hydro construction projects in Fiji and Papua New Guinea, Downer linked with Kier International of the UK to win the contract. The company's expertise in tunnelling in many New Zealand construction jobs helped win the PNG contract.

Company turnover for the year ended March 31 was NZ$ 165m, but Downer is only one of four sectors which make up the parent company, Cable Price Downer.

CPD, as it is universally recognised throughout New Zealand, is the country's 14th largest listed company. It has a market capitalisation of NZ$ 380m.

In addition to the construction role, spearheaded by Downer, CPD is also involved in engineering, manufacturing and merchandising. Last year the group notched up an after-tax profit of NZ$ 34.4m from a group turnover of NZ$ 563.7m.

Downer contributed 29 per cent of group turnover, the second largest sector.

Nearly half of the group turnover came from its merchandising activities which include holding the New Zealand franchise for Toyota and Mercedes Benz cars.

This has become an important operation for the group, as Toyota cars have a substantial share of the New Zealand car market. In the same division is an industrial lighting company and a fabricated steel plant.

It is also in the export business. Last year, export sales, ranging from locomotives to stoneware reached NZ$27.3m. The company plans to expand its export business to Australia, the US and Pacific Basin countries. It also "exports" staff and their families. For overseas construction projects the management staff are sent from New Zealand. For a NZ$38m power scheme in Papua New Guinea, it had 70 staff and 30 families involved in the operation.

Transporting and housing these staff in a remote construction village, located many miles over rough roads from the nearest town, was a logistics exercise of its own.

The manufacturing sector is involved in producing a diverse range of products from steel tubing to ceramic pottery. They include switchgear, roofing tiles and railway wagons. These are now exported to Nauru.

The group's activities even extend to Antarctica. One of its companies recently built electric control panels for New Zealand's operation at Scott Base, near the South Pole.

In 1984, CPD and Crown Corporation agreed to take a cross shareholding in each other to help fend off any takeover predator.

The company sharelisting reveals an interesting statistic —at least, for a company heavily involved in construction and heavy engineering. The number of women shareholders (3,454) is almost equal to the number of men (3,476), with each group holding the same proportion of shares—14 per cent.

D. H.

A surprising export success

POLAR BEARS in Alaska, seals in Antarctica, rhinos in Kenya, turtles in Australia's Great Barrier Reef, elephants in India and lions at England's Longleat Animal Park, all wear easily-read and recognisable identification tags—first designed and produced on a home-made injection moulding machine, in a small house on a residential street in a New Zealand provincial town.

The success of the eartag, and the growth of Allflex International from that small back-street house to a worldwide operation with factories in US, Europe and Brazil, as well as New Zealand, in less than 25 years, is recognised as one of New Zealand's more unusual export achievements.

Tens of millions of sheep, cattle and other animals around the world now wear the brightly coloured Allflex eartag. Yet the original idea of New Zealand dairy farmer, Brian Murphy, for a new and easy way to identify cattle by a plastic eartag was initially rejected by several companies who thought it had little potential.

In 1964, Brian Murphy took his idea to British-born John Burford who operated a small precision engraving factory. Burford saw the potential, but first two tricky problems had to be overcome. One was the need to develop a quick, easy way of attaching the eartag to the animal's ear. This was solved by a hand-held one-operation punch system.

The other problem was to install an injection moulding machine which could produce the new style tags. At that time none of these machines were available in New Zealand so John Burford and his partner built their own. Much research and experimentation went into raw materials for tags.

By 1965, the company was offering the eartags to local sheep and dairy farmers. They were an instant success.

The first tags were exported to Australia in 1968. They were equally popular, but overall sales were limited by the company's relatively small marketing arm. By 1971, total tag sales were worth NZ$181,000. They doubled in two years.

Then the partners set up a wholly-owned company to sell their product to American farmers. The New Zealand and Australian success was repeated. In a short time, cattle from the Canadian border to the Texas Panhandle were wearing the New Zealand-made brightly coloured tags in blue, yellow or green.

In 1974, sales totalled NZ$620,000 and just five years later reached NZ$5.1m.

In 1985 they were worth NZ$33.5m and net profit was NZ$6.6m. Both had quadrupled in only five years.

Although sales increases were reported in the annual results, published in June this year, profit was affected by the high value of the New Zealand dollar and the removal of Government tax incentives. Worldwide sales reached NZ$42.3m with a tax paid profit of NZ$2.7m. Assets of the company have grown to more than NZ$33m.

Pirating of the extremely successful eartags by competitors and distribution difficulties led to the setting up of Allflex production plants in America, France and Brazil. It expanded into France through the acquisition of a 70 per cent shareholding in the Rockall Company at Vitre.

Last year, it set up a wholly-owned subsidiary factory in Sao Paulo, Brazil. The company also has sales or marketing offices in several other countries.

Allflex has vigorously fought imitators who copy its eartags and has been successful in several American court battles. The courts have ordered some imitators to pay damages and back-dated royalties to Allflex.

It is not only domestic animals which now wear the New Zealand-designed identity tag. Wildlife rangers and government conservation officers in many countries have been quick to recognise the value of

ALLFLEX INTERNATIONAL

the easily-spotted tags to keep check on the movement and numbers of wild animal herds.

The tags are also used below the sea — not only to keep track of fish, but to measure the growth of kelp. New Zealand maritime research workers are using a form of the animal tags to monitor extensive kelp beds, off the coast.

The tags are being increasingly used as other methods of identity. For example, tennis club members attach them to their tennis shoes as a membership identification.

The small house where the idea was first researched and worked has long since given way to an extensive factory in Palmerston North—still the headquarters of the Allflex Group's international operations.

New uses and demands for the plastic eartag continue to grow. Although these are still the company's major product, it is now moving into the electronic age. It believes electronic identification of animals will become increasingly important.

Five years ago it acquired a New Zealand micro-electronics company so that it could combine the micro-chip with animal identification methods. It is also working with a Californian electronics company.

Recently Allflex began the testing of a new electronic identification product. This incorporates a micro chip into its plastic eartag. The electronic tag can be used in conjunction with computerised weighing scales for cattle or deer. The scales automatically record the information required and the tag identifies each individual animal. A signal from the eartag can also be used to automatically open gates as animals are drafted into separate pens.

The company can now claim to be the world leader in animal identification systems and says it intends to retain this position.

In recognition of its success, Allflex has won two prestigious export awards, including the coveted Governor General's Award—given for an international achievement, based on a small plastic tag.

D. H.

NZ$15m Americas Cup challenge

THESE DAYS, Michael Fay is missing from the daily 7.30 am office breakfast which all senior staff of the New Zealand merchant bank, Fay Richwhite, are required to attend.

Instead, he is to be found in a cramped, sweltering, dismountable office overlooking the Perth boatyard where New Zealand's two entries in the Americas Cup contest are being prepared to take on the world's best. Fay is masterminding the New Zealand challenge.

Neither Fay, nor his partner, David Richwhite, are yachting enthusiasts. Indeed, Fay is sometimes seasick when he goes out in one of the competing yachts.

They see the Americas Cup challenge as a bold gamble which could provide a dramatic boost and turnaround for the New Zealand economy. Both have backed their belief with millions of dollars of their own money.

This is typical of the bold approach on which the success of Fay Richwhite has been built. Yet just over ten years ago the two partners were virtually unknown in the New Zealand financial scene.

In 1974, Michael Fay and David Richwhite set up in business as merchant bank in a small one-room office in Auckland. Today, it is the largest merchant bank in the country and is among New Zealand's top 50 companies.

It has a staff of 80 in New Zealand, has expanded into Australia, and has just opened an office in London. This makes Fay Richwhite the only NZ merchant bank with offices in both Australia and the UK.

The partners in this fast moving entrepreneurial oriented company are still only in their mid-thirties, and both are obviously millionaires several times over.

During its spectacular growth the company has planned and

FAY RICHWHITE

carried through many deals and coups which have left older, more conservative bankers somewhat breathless.

It has become a market leader in raising funds for New Zealand's largest companies, obtaining more than $1bn for eight of the top ten in 1985 alone.

It was also one of the first to recognise the opportunities which the Eurobond market offered New Zealand companies seeking large loan finance. In less than two years Fay Richwhite has raised more than NZ$500m in Euro-Kiwi loans. During the same two-year period—since the deregulation of the New Zealand finance sector—it has also increased its activities in the offshore financial markets.

At home, it provides a wide range of financial services and has organised many intriguing investment deals. Many earlier packages were tax-saving schemes which helped to attract big investors. It has also made a major contribution to developing New Zealand's natural resources and opportunities. Fay believes strongly in helping to promote locally based industries.

The bank has played an important role in the expansion of the thoroughbred bloodstock breeding industry. It has also been involved with apricot-growing, goat farming, forestry, deer farming, oil exporting, and construction of a luxury yacht for sale to the American market . . . and a full length cartoon film.

Much time and money goes into thorough research of every project—then, when they are satisfied it will work, the partners put a large amount of their own money into the venture. They prefer to be the major single shareholder with an investment in any scheme of between ten and 30 per cent.

"That way," says Michael Fay "we feel more comfortable because if something goes wrong we are obviously going to have a bigger loss than any one of our clients."

The Americas Cup project is an extension of their genuine desire to help New Zealand while helping themselves.

In the past thirty years, New Zealand's standard of living has slipped from third in the world to twenty-fifth. Fay and Richwhite see, in the Americas Cup, an opportunity to start reversing the slide. Winning the cup would be worth, in Fay's estimation, between $2bn and $3bn to New Zealand.

Fay Richwhite provided a substantial research budget to realistically assess whether the country had any chance of winning. When the decision was "yes," Fay Richwhite agreed to underwrite the cost of mounting the challenge — about NZ$15m. One condition was that Fay Richwhite had complete control and management of the New Zealand challenge.

The Royal New Zealand Yacht Squadron, under whose name the challenge is mounted, were happy to agree. The merchant bank then went out to find other sponsors to meet part of the cost. Their major success was with the Bank of New Zealand which is also organising a public drive for support.

Michael Fay has taken a year's absence from the company's day-to-day activities to give full time to managing the Perth challenge. This means he misses not only the 7.30 am breakfast served to all staff by the company chef while they discuss the day's problems and swap ideas, but also the high pressure environment of the Auckland office.

Fay Richwhite has established an almost old-fashioned ethic to work—but one which is enthusiastically supported by the whole staff. The typical work day is twelve hours, lunch, prepared by a dietitian, is served—again by the company chef—at the desk. And staff are allowed no alcohol during the day.

There are no newspapers or magazines anywhere in sight. Staff do not have time to read them.

The firm has a company slogan which is changed every year. This year it is "Make Money." Last year it was "Work Smarter," and the year before "Make Things Happen."

The rewards to staff for this dedication to work—and making money—are high. They include big salaries, generous bonuses, profit sharing and holiday trips —voted on by the staff for employees, including the tea-lady, who have made a noteworthy contribution to company success.

But, most important of all, according to David Richwhite, it is the freedom to operate, to use their own initiative and the backing given the staff to pursue their own ideas, which is the biggest motivator.

D. H.

NEW ZEALAND STEEL

Troubled project fights to survive

New Zealand Steel: back from the brink

"NEW ZEALAND Steel? It's been nothing but a disaster — a rat-hole down which we pour money," retorts Mr Jeffrey Palmer, the country's Deputy Prime Minister, in tones that are, if anything, more restrained than most used by his Cabinet colleagues.

Comments have been no less measured since the Government became the 81 per cent majority shareholder in the troubled NZ$2.7bn project in March this year, following a NZ$1.2bn reconstruction.

The plan to expand New Zealand Steel's 20-year-old plant, and to add hot and cold strip rolling mills, has been dogged with controversy since it was conceived in 1978.

Even its inclusion in the list of "Think Big" projects on which Sir Robert Muldoon won his 1981 election was largely fortuitous. The withdrawal of foreign joint venture support for an aluminium smelter that was to be one of the three "Think Big" projects meant the shelved steel project was dusted down and hastily approved.

"The political mandate for the project could not have been clearer after the election victory," recalls Dr Nigel Evans, NZ Steel's deputy managing director.

Only a few months earlier, the Cabinet Economic Committee had held a very different attitude, according to Mr Paul Lissington, a Treasury official who was asked to write a book on the history of the project.

"In their view, a project which would result in a net annual loss to the nation of NZ$211m, which had major risks mostly carried by the Government, and which would add to the already considerable strains on the economy, did not warrant any Government assistance whatsoever," he wrote.

The case for a fully integrated steel plant in New Zealand is based on a number *of factors, among them the* need to ensure the country is not entirely dependent on imported steel products, the need to save foreign exchange, and the value of using surplus indigenous energy.

In addition, the extended plant would broaden industrial skills in New Zealand, and would create 1,600 jobs. It would exploit the plentiful supplies of iron found in iron sands stretching along 300 miles of the west coast of New Zealand's North Island.

The problems linked with it have, nevertheless, always been formidable. Foremost, a steel mill of an economic size would need to produce twice as much steel as New Zealand can consume, but the opportunity to *export the surplus is limited by* world oversupply, and low international steel prices.

There has also been persistant scepticism that the company can produce steel at prices that are competitive with steel pro*ducts emerging from giant mills* in Japan or South Korea. It is dependent on locally-supplied electricity, and on local coal, both more expensive than in other countries competing for export markets.

Fears expressed in 1981 about the viability of the venture have materialised on a scale that perhaps even opponents could not have anticipated. A project that was originally expected to cost NZ$1.5bn *is now likely* to cost at least NZ$2.7bn. Chronic labour problems in the construction of the plant have meant that the first stage of the plant, due to be commissioned in 1984 actually came on stream in March this year.

Stage two is also running about a year behind schedule, and may be in operation by the end of 1987.

Problems have been exacerbated by the economic liberalisation orchestrated by the current Labour Government. The removal of subsidies has meant that critical inputs such as coal and power are likely to be more expensive. The removal of tariff protection means the company must compete on equal terms with foreign steel suppliers in the domestic market as well as overseas.

True costs

"The *shame of the whole* thing is that the project was conceived at a time when the true costs of inputs were masked," comments Dr Evans. "From a commercial assessment, no one in their right mind was going to go ahead with it using their own funds. the Project always required state support."

Despite the reconstruction completed in March, under which the Government took on *responsibility for debts amounting* to NZ$1.14bn in exchange for an 81 per cent shareholding, Government support has never been so much in doubt.

Mr Roger Douglas, the Labour Government's Finance Minister, has said its stake is to be sold as soon as is practically possible. However, anyone confident that a buyer could be found in the foreseeable future is deluded or giddily over-optimistic, so the motivation to move towards profitability is strong.

As Dr Evans put it: "The Government is essentially shooting itself in the foot from now on if the plant continues to make losses."

Mr Douglas, licking *his* wounds over the costly recon*struction, claims* he is confident about the company's future. The reconstruction document predicts a profit of NZ$14m in 1989 —the first year of full operation —building up to *NZ$298m* by 1998. The company no longer *carries the* huge burden of debt that was dragging it into insolvency.

This comes as a relief, but executives clearly feel let down by a Government that is reneging on commitments agreed five years ago without which the project would never have been seen as viable and would never have gone ahead.

They also appear less sanguine about the group's future than does Mr Douglas: "We are *commissioning in* a period that couldn't be worse," says Dr Evans. "If we had to estimate profits on the basis of the situation as we see it now, then long-term profitability would be in jeopardy."

Of greatest concern is continuing labour trouble in the construction of stage two: "Building the plant has been horrendous," says Dr Evans. "Union demarcations and old-style union issues have to be *challenged this* year—it's a matter of survival. One way or another we have to make it happen."

There is considerable resentment that the Government has not acted more firmly in the past to aid the company in smoothing industrial relations. Hopes are now firmly focused on the labour reform legislation that the Government says will be drafted before the end of the year.

From last month, the US consultancy group, Booz Allen Hamilton, has been working inside the company assessing costs and potential competitiveness. It is expected to present its report to the board by the end of the year, and NZ Steel's survival strategy will lean heavily on its *findings*.

The group has established a Singapore-based joint venture with Ferrostaal of West Germany to market exports in the Asian region, but how effective this will be in the current depressed world market is as yet unclear.

The policy of Closer Economic Relations (CER) with Australia may also provide export opportunities as many Australian steel-users appear keen to find *second sources for the steel that* currently comes almost exclusively from BHP. Little progress is expected until the end of 1988, however, when the system of bounties that protect BHP is due to lapse.

For a group that has just been hauled from the brink of collapse, such issues are perhaps part of a very hypothetical future. The main management preoccupation in the near future is likely to be survival itself—and the hope that one day the name "New Zealand steel" will not be synonymous with the word "disaster."

David Dodwell

Industrial Relations

Revolutionary changes

NEW ZEALAND'S industrial relations and the traditional roles of trade unions, as well as employers' associations, are about to undergo what are, in the context of traditional trade unionism, revolutionary changes.

Rank and file union members, and probably a few union officials, still do not fully appreciate the new philosophy and the new direction in industrial relations which will be put into law by the Government this year. *Old-fashioned* trade union attitudes, based on conditions of half a century ago will have to disappear in the new atmosphere.

Equally, there will be no place for employers who automatically adopt a confrontation attitude in any union negotiations.

The Government's objective is to develop a system of industrial relations law which is relevant to the fast changing economy of today. It also wants this to be respected by both unions and employers.

The Government has reviewed New Zealand's industrial relations and recently issued a Green Paper setting out various options for change. This has been widely discussed, and the Labour minister, Mr Stan Rodger, has received a large number of submissions from every group involved.

Government thinking is simple: the new free market economy, the fiercely competitive environment in New Zealand industry, along with the depressed state of the agricultural industry, requires a new approach. It wants unions to have a better, more informed understanding of developments in their industry and to have the ability to make a contribution to the changes and rationalisation which are inevitable.

For more than half a century, New Zealand trade unions have lived in a sheltered world protected by law. Compulsory unionism provided a base which guaranteed their existence. As a result, there are many smaller unions which in any other country would have long since ceased to exist. Not only have they been protected, but also helped by the state.

It will now come as a shock to many trade unions that this protection and assistance is being removed by a Labour Government.

In the past, wage negotiations have usually taken the form of a battle of wits and persuasive powers between union and employer representatives. When a strong union gained a wage increase, other unions demanded a similar increase. Employers, who were also protected, by successive governments maintaining import controls and providing export and other tax incentives, could simply pass on these extra costs to the consumer.

Now there is a growing realisation those days are gone. To survive, New Zealand companies and industries must become more competitive and more efficient. Unions too must become more efficient.

Productivity will be the key word in future industrial relations bargaining. Unions which recognise this and are prepared to help increase productivity in their industry will not only help shape the future of that industry, but will obtain a better deal for their members.

Certainly, union leaders who adopt a dogmatic conservative "hold the line at all costs" stand will not stop the drive for efficiency, rationalisation and productivity.

The Government is aware of this. It wants to see union officials better informed. It has already introduced a union representatives' education bill which allows trade union members paid leave to attend special courses.

In the future, conditions in an industry and its prospects to compete will be more important in fixing wage rates than in the past. It will be necessary for unions to have staff trained to analyse future developments and adjust the union's bargaining accordingly.

The choice for trade unions is between continuing the role they have had for the past 50 years or adjusting to a new environment.

Wage levels

More than half a million workers in the private sector have their wages and conditions fixed by negotiations between their unions and their employers under an award system.

The way the Government intervenes to regulate the industrial relations system has an important bearing on the outcome of union/employer negotiations. This is very different to the position in the UK, for example, where there is a minimum of Government intervention.

Prime Minister David Lange says that the union movement in New Zealand has been so conservative and protective, it has overlooked the potential it has to be really effective for its members. This attitude is now changing with a new breed of young union officials, many of them with university degrees. *They do not agree* that the national award system is sacrosanct.

Efforts to reduce the number of awards, or abolish the system altogether, will create turmoil within the trade union movement, but the need for rationalisation of awards is being widely canvassed by those anxious to modernise the industrial relations system.

Compulsory unionism—which was abolished by the previous administration but which labour, fulfilling a pre-election promise to unions, reintroduced with some modifications—is another issue which causes dissension between employers and unions. Since the late 1930s every person working in New Zealand has been compelled to join a trade union. This requirement is disliked by employers but those now trying to change the system say compulsory unionism is irrelevant to the main objective of modernising industrial relations.

The Green Paper, which questioned the old standard beliefs and highlighted the need for change, created suspicion among unions. Many union officials believe the Government wants to weaken them.

The Federation of Labour, which represents most of the private sector unions, *is also* reluctant to face up to change. It wants to retain as much of the present system as possible. Employers, too, are nervous. They want the present system changed, but in a way which would take away much of the power of trade unions and give employers a much freer hand. When both sides realise the inevitability and the depth of the change which will follow the government's review, both will scream.

The Labour Minister, Mr Stan Rodger, and the Government will have a big public relations and educational job to do explaining their objective and persuading both sides that the aim is to preserve the economic well-being of both.

The trade union movement itself has been undergoing some upheavals.

A few years ago there were very few, if any, unions in the *manual or trades area outside* the Federation of Labour. Over the past few years, there have been accusations that some of its higher-ranking officials who are members of the Socialist Unity Party—the more effective of New Zealand's two Communist parties—are more concerned with applying Communist philosophy in the union movement than they are in the welfare of their members. As a result, a number of large unions *have broken away and formed* into a new grouping—the independent trade unions.

Dai Hayward

NEW ZEALAND SURVEY

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Energy Policies

'Think Big' bills mount up

IN THE hurly burly of New Zealand politics, the Muldoon Administration's "Think Big" oil substitution projects are described these days as "Think Slick." The projects are major contributors to the country's $28bn foreign debt and the Labour Government rarely misses a chance to point out their cost to the taxpayer and the motorist.

At issue are the unique Mobil petrol-from-gas Synfuels plant at Motonui on the Taranaki coast north of New Plymouth and the expansion — to 10 times its original size — of the Marsden Point refinery on the Whangarei Harbour.

At today's world *oil prices*, the annual losses on the two plants are between $200m and $300m.

Mr Roger Douglas, the Finance Minister, estimates the debt on the refinery expansion at $2bn and on the synthetic petrol plant at NZ$2.6bn.

"We would have been better off if we'd dumped this money in cash on the farms of Taranaki — at least it would have made good fertiliser," he said in a speech to Parliament earlier this year.

Fickle oil prices and fluctuations in New Zealand's exchange rate, *have* indeed made a nonsense of the country's fervent drive towards fuel self-sufficiency brought on by the two oil shocks of the 1970s.

Apart from an extensive suburban rail network in Wellington, there is little in the way of public transport and the 3.2m population is *widely dispersed*. Car-less days in 1978 were more than an irritant, they were a serious economic constraint.

When the projects were devised, New Zealand's largest single import was Middle East *oil*—on which it was 90 per cent dependent for transport fuel—and its isolated vulnerability could not have been more apparent.

Six years later, the country is now 56 per cent self sufficient in transport fuels with Motonui's annual production of 570,000 tonnes providing one-third of petrol needs.

The trouble is, that at a processing fee of 75.5 cents a litre, the Motonui product must be about the most expensive in the world.

At the same time, crude processed at Marsden Point (which is due to be fully commissioned by October) is expected to cost *35 cents a litre to produce* and will cost the motorist a further 15 cents a litre that the previous government guaranteed for the refining partners—British Petroleum, Shell, *Mobil* and Caltex.

Imported products from the giant Singapore export refinery cost at present only 25 cents a litre.

Given excess refining capacity in the region, the Marsden Point expansion may have come five years too late.

There have been doubts, too, about the Synfuels plant from the start, especially given that 81 per cent of the cost was borrowed.

No-one would deny, that the plant, jointly owned by the state (75 per cent) and Mobil is a marvel of modern technology. Before the oil price drop Argentina, Japan and the Gulf states among others were showing a keen interest in the revolutionary process that converts natural gas to methanol. The methanol is passed over a zeolyte catalyst to produce high *grade petrol*.

The Motonui venture was devised at a time when imported oil was costing NZ$40 to NZ$50 a barrel. With prices now around NZ$15 a barrel, the foreign attention is rather academic.

Mobil stated, when the Duke of Edinburgh opened the plant in February, that, under current conditions, the company would not have countenanced the project. It is still predicting though, that, even at today's prices, the plant *will* save the country $3bn in foreign exchange by 2003.

Oil prices, however, were not the only consideration in the Muldoon Government's alternative energy strategy. More important was its desperate need to find uses for gas and valuable condensate from the huge Maui gas field off Taranaki. The gas is exploited by the Shell, BP, Todd consortium under an arrangement whereby the state must take or pay for agreed quantities of gas until 2008.

Reserves

The Maui field, one of the world's largest, was discovered in 1969 and has reserves of more than 230bn cubic metres *of gas and* 177bn cu m of recoverable. The nearby onshore Kapuni field has recoverable reserves of 20bn cu m of gas plus 6bn cu m of condensate.

Alternative uses of the gas became imperative when it was realised that New Zealand had vast over capacity in electricity generation. Besides, *natural* gas was far too valuable a resource to be burned in power stations.

The gas could not be left in the ground under the terms of the contract with the operators and the country needed all the indigenous condensate it could find.

Maui gas has been piped throughout the country for more than 15 years. One of the first alternative uses for it was Compressed Natural Gas, (CNG).

The 1980 Energy Plan envisaged the conversion of 200,000 vehicles by 1990 and with prices half of those of petrol, CNG companies initially did a brisk trade. A total of *3,000 cars was being converted* each week.

Now, the total is more like 300 and many of the conversion companies have gone out of business. The CNG-petrol price *ratio remains the same but the* conversion cost has doubled to NZ$2,000 and there are difficulties of storage in vehicles and relatively low octane levels.

Until world crude prices start moving up substantially, the outlook for CNG use appears limited. The same can be said for the more efficient liquefied petroleum gas (LPG) which has been distributed on a much smaller scale.

International oil prices and *production have also put a stop* to New Zealand's exploration efforts. Drilling has been concentrated in three regions:

- A large strip offshore and onshore down the western coast of both main islands.
- An onshore strip down the eastern side of the North Island.
- An almost entirely offshore region to the south and south-east of the South Island, including the Great South Basin.

There have been two small finds off the Taranaki coast but it is the Great South Basin—with conditions similar to those in the North Sea—that was seen as the most promising.

Exploration activity has now slowed considerably and, in May, Mr Bob Tizard, the Energy *Minister*, announced that the Government would no longer be taking up its 15 per cent contributory interest in new licences. He estimated cost savings this year of *NZ$6m* as a result.

Exploitation of coal reserves, however, estimated at almost *4bn tonnes, is going* ahead. At the top of the list is the Waikato coal programme with about NZ$750m to be spent over the next 10 years.

Production from the Waikato fields is expected to rise from the present rate of nearly 900,000 tonnes a year to 3m a year by 1990. Much of the output will be for export.

Stephanie Gray

Foreign Affairs and Anti-nuclear Policies

How the mouse's roar was choked

JUST OVER a year ago, two French-laid bombs sank the battered Greenpeace trawler Rainbow Warrior in Auckland Harbour and catapulted New Zealand into the world's headlines.

The bombing of the ship, which was preparing to monitor French nuclear testing in the South Pacific, *was an outrage* that dramatically underlined the Labour Government's fierce anti-nuclear policy and lent weight to Wellington's argument with Washington over the ban on visits by nuclear armed or nuclear-propelled US ships.

The combination of the policy and the bombing helped change the country's self-image. New Zealanders were enjoying being the mice that roared.

It was good fun for a while. *In the past few months, however*, a degree of defensiveness set in and a perception that the rest of the world was against this small, isolated country. Any suggestion, though, that a deal would be done with France over the Rainbow Warrior, was greeted with derision.

Protests

For Mr David Lange, the Prime Minister, any such deal, it was argued, would be politically impossible. It came as no surprise, then, that the agreement reached two weeks ago was greeted with widespread indignant protest. Most New Zealanders felt deeply humiliated and angry. The mouse's roar had been choked.

Under the terms of the pact, worked out by Mr Javier Perez de Cuellar, the United Nations Secretary General, New Zealand agreed to release the two French agents, who had been jailed for manslaughter of the Portuguese photographer who was killed in the blast, to the confinement of the French military base on the tiny atoll of Hao, near the Mururoa French nuclear testing site. There, they are to serve only three years of what was originally a 10-year sentence.

In return, France has had to formally apologise to New Zealand and pay over $7m compensation. The cost, as one French newspaper pointed out, was less than Argentina soccer star Diego Maradona's transfer fee.

The jubilation with which the accord was greeted in Paris was like salt in the wound, as was the cruel, hard, basic fact of the matter headlined in the French newspaper Liberation—"The Price of Butter."

Negotiations on quotas for New Zealand's butter—there is a five-year protocol guaranteeing access to the EEC—are due to start next month. The French had threatened to make life exceptionally difficult during the negotiations. They had already imposed unofficial trade barriers on imports of kiwifruit, wool, sheeps' brains and bulls' sperm into France.

Now that the deal has been done, the French have pledged not to try to block agreement on the quotas. With utmost cynicism, the minute the agreement was reached, the European Commission came up with proposals to allow quotas of 77,000 tonnes next year and 75,000 in 1988 (down from 79,000 tonnes this year).

It can be argued, quite properly, that New Zealand has, at this stage, little or no right to access to the European market. After all, New Zealand farmers have had almost 14 years to diversify their markets following Britain's entry to the EEC. The last thing the EEC needs is an addition to its massive dairy surplus.

Diversification by New Zealand's conservative rural community has been very slow, both *in product and market, and was* in any case thwarted by widespread subsidies for meat and dairy production offered by the National Party administration of Sir Robert Muldoon.

Movement away from the traditional agricultural output is, however, happening— if belatedly—now. Not, however, in time to save the nation's 14,900 dairy farmers whose incomes are set to drop by half in the coming season, leaving many of them faced with bankruptcy.

The dairy industry still earns 20 per cent of New Zealand's foreign exchange and the EEC quota takes up about a third of all dairy exports. Not surprising, then, that the dairy farmers were about the only ones to applaud the move.

While pragmatism has won the day in New Zealand's dispute with the French, it would be impossible for Mr Lange to survive another volte-face in the country's argument with the US.

Wellington's ban on port calls by nuclear armed or propelled warships remains very popular, even though it has brought about the mothballing of the Anzus defence pact between New Zealand, Australia and the US, which has been the cornerstone of New Zealand's security for more than 30 years.

"When elephants battle, the grass gets trampled," explained the diplomat.

Understandably, the US is not about to withdraw its "neither confirm nor deny" policy with regard to the nuclear capability of its ships. New Zealand has not, in fact, asked it to withdraw the policy.

On the one hand, Wellington does not see why it should not be possible to reach some sort of understanding on ship visits that would equate with those that apply to Norway and Japan. The details of both formulae are secret, but in Japan's case, the US " understands " Tokyo's position, and Tokyo expects the US not to abuse it. Britain has a similar arrangement with China.

On the other hand, as one senior Foreign Affairs Ministry official put it, New Zealand is not interested in doing "tricks with mirrors" to reach some sort of formula.

Washington, which particularly objects to the policy being enshrined in law, will be wary of playing the heavy handed superpower — though that is the way many New Zealanders see it — largely because of what it perceives as a growing effort on the part of the Soviet Union to extend its influence in the South Pacific.

The opening of diplomatic relations between Moscow and the tiny island of Vanuatu late last month was the latest in a flutter of activity on the part of the Russians in the region. US Embassy officials in Wellington point particularly to a fishing agreement with Kiribati which they claim is worth vastly more than any possible fish catch.

While the governments of both the US and New Zealand are daggers-drawn over the anti-nuclear policy, the way the American citizen reacts might be something rather different. Some New Zealand companies have been attaching leaflets to their exports that explain that the product was made in "nuclear-free New Zealand."

The Chernobyl accident and the threat to American tourists of terrorism in Europe may well considerably work to New Zealand's advantage.

Relations with Australia through all of this have not just remained intact, but have been strengthened — especially in defence co-operation. The governing Australian Labour Party has resisted calls from its left wing to follow a similar policy to New Zealand's, besides which it has more significant defence links with the US.

Secret US installations on Australian soil are believed to be monitoring Soviet military movements and the intelligence and technology offered by the US under the Anzus treaty and a separate bilateral agreement are seen as essential to Canberra's efforts at technological independence.

The Australians are now trying to negotiate another defence agreement with the US to replace Anzus but frequent Australasian military exercises will continue much as before.

The Hawke Government is *also on* New Zealand's side in support of a proposed South Pacific Nuclear Free Zone which requires the five nuclear states —the US, France, Britain, the Soviet Union and China—to provide assurances that they will not test or store nuclear weapons in the South Pacific or attack any of the nations in the region.

France cannot, clearly, agree to such a treaty—adamant as it is to continue testing on Mururoa—but the other four may well, even though the US and Britain still govern territory in the region. The South Pacific Forum meets in Fiji next month to finalise the protocol and hear the results of approaches to all five states.

Whatever the reaction from the five, the proposed treaty has a great deal of support from South Pacific nations.

It is completely separate from New Zealand's arguments with France and the US—and Britain, for that matter.

Along with economic liberalisation and an increase in regional tourism, particularly from Japan, it is, however, another symptom of New Zealand's changing perception of itself from a distant offshoot of Mother England to a genuinely Pacific nation.

Stephanie Gray

The Greenpeace flagship, Rainbow Warrior, resting on the bottom of Auckland Harbour after two explosions ripped through the vessel. The political impact rumbles on and on

Expansion in Tourism

Big drive to attract US and Japanese visitors

FOR MANY years, New Zealand really did have one of those chicken-and-egg situations as far as tourism was concerned. There were few tourists because there were few hotels and other support facilities for them. There were few hotels because there were not enough visitors to fill them up and provide a return on capital employed.

As recently as five years ago, there were less than half a million visitors to New Zealand each year.

It has only been with the present Labour Government that there has been any great emphasis on building up tourism. The Government of Mr David Lange, rather belatedly perhaps, realised that tourism could provide a valuable foreign exchange earner. With dwindling demand for its traditional pastoral products, lamb, dairy and wool, the country urgently needs to find new ways of making a living in the world.

The Government has virtually quadrupled the budget for promotion to more than NZ$16m. There has been a particular emphasis on the US and Japan, although lots more visitors came from Europe and Scandinavia.

For the year ending last February visitors from the US totalled 130,416, an increase of 26.2 per cent. Japanese visitors totalled 52,152 for the year, an annual increase of 17.5 per cent.

Tourists from Britain numbered 44,700, an annual increase of over 10 per cent. All told, for the year that ended February this year total visitor arrivals from all markets were 685,297, an increase of 17 per cent.

More than a third came from Australia even though the strong Kiwi dollar made this more expensive than before.

Total earnings from tourism for the same period were NZ$1.2bn. This made tourism New Zealand's fourth largest export earner after dairy NZ$1.8bn, manufactured goods NZ$1.8bn and meat NZ$1.7bn.

The Tourism Council projects growth of between 7 and 8 per cent in the next four years so there could be arrivals of 900,000 by 1990. Tourist receipts are expected to rise to NZ$1.6bn at least by then.

Some 84,000 people are now employed in the tourist industry. If the projections of growth are met, this could mean another 29,000 jobs.

Rich variety

On the face of it there seems no reason why tourism should not continue to expand *rapidly. New Zealand* is a country of mountains and fast-flowing rivers, surrounded by beautiful and near-empty beaches. For the sports or adventure holiday, the country offers everything.

Auckland is a city of bays and harbours with all kinds of yachting and boating. The Northland peninsula, to the north of Auckland, offers excellent deep sea game fishing. Further south, on North Island, around Lakes Taupo and Rotorua, there is some of the finest trout fishing in the world.

There is also trout fishing on the South Island, particularly in the Queenstown area, which is being built up as a resort town. This area, however, is becoming better known for skiing and hunting holidays. From Queenstown it is possible to take jetboat trips, to go on back-packing journeys and horse riding trips. One highly recommended journey is around Milford Sound, a deep fiord cut into the western coast right towards the bottom of south island.

New Zealand may not ever become a mass tourism market—it is a long way from anywhere else for one thing—but in the specialised holidays at the top end of the market there seems plenty of scope for increases.

The Tourism Council's projections were made before the Chernobyl disaster in Russia and before Libya started making threats to tourists visiting Europe. The target of 900,000 by 1990 could easily be surpassed, particularly if Americans from the west coast of the US are attracted.

There are accommodation problems, however. In Queenstown, the manager of the Travelodge, told me that he already has an 85 per cent occupancy rate and he thought the other two first class hotels, were *similarly full. In Auckland* and Wellington, the largest town and capital respectively, it is often very difficult to obtain a room at a first class hotel through the week.

Earlier this year, Mr Mike Moore, the Minister for Tourism, announced that there were 23 major hotel projects underway at a cost of $476m, which would mean 3,700 new rooms by 1990.

In June, the Tourism Minister announced the biggest single tourist development project so far proposed by the private sector for New Zealand. This is the Walter Peak resort plan in Queenstown. It will cost NZ$596m and will be completed within 15 years. The first stage will comprise 96 to 140 chalets, followed by a 300-room hotel complex. There will also be a NZ$7m golf course, designed by Arnold Palmer's company. Palmer has agreed to play on it at least once a year.

Apart from these projects in the first class sector, there are also plans to up-grade smaller, lower-cost accommodation facilities around the country. A number of companies, such as NewMans, also offer camper-type caravan holidays.

Stewart Dalby

SECTION II - COMPANIES AND MARKETS

FINANCIAL TIMES

Monday July 21 1986

France is first to test new low underwriting fees

CREDIT FONCIER has become the second French state agency to break through the 5 basis point barrier for underwriting fees on a Euronote facility with the launch on Friday night of a $300m seven-year deal, writes Peter Montagnon in London.

Its mandate to Chase Manhattan, First Chicago, Mitsubishi Bank and Société Générale confirms that a 4 basis point fee has become an acceptable benchmark for French state guaranteed borrowers. The fee will be held at this level for the first five years of the deal's life, after which it will rise to 5 basis points.

This goes even further than the recent deal by Electricité de France (EdF), which carried a 4 basis point fee for only the first three years of its 10-year life, and the terms were accordingly deemed as tight in the marketplace.

Yet some bankers admitted that things could have been even worse. Credit Foncier, which is in the housing finance sector, is a popular borrower. It is a rare name in the Eurocredit market, where it has not borrowed since 1982. EdF's deal was both larger at $800m and three years longer.

That could have tempted Credit Foncier to plump for even tighter terms with a facility fee of 4 basis points running throughout the deal's life.

Implicit in the structure is a desire by the French authorities to proceed cautiously as French borrowers plumb new lows in terms of fees. France is the only sovereign borrower to have launched loan facilities with fees below 5 basis points, although this has been done by top-rated multinational corporations.

Drawings under the accompanying standby credit will carry interest at Libor, the London interbank offered rate for Eurodollar deposits, although there will be an additional utilisation fee of between 3 and 10 basis points depending on how much is taken up.

Credit Foncier will use the deal to replace its more costly 1982 borrowing which was arranged by Banque Nationale de Paris and Manufacturers Hanover. That was a conventional credit and Credit Foncier has not in the past issued Euronotes. It will therefore use a tender panel auction system for distribution at first, appointing specialised dealers later.

French private sector borrowers were also in the limelight last week. After its successful $150m credit for Michelin, which was increased to $250m, Credit Suisse First Boston launched a $150m credit facility for Carrefour, the retail chain. This is a five-year operation to be used partly to back up Eurocommercial paper issues. Drawings will carry a margin of 1/16 per cent over Libor.

The facility fee arrangement is unusual. There is an 8 basis point fee payable on the higher of 50 per cent of the total facility or the actual amount drawn. This means that if no drawings are made the fee is effectively 4 basis points across the whole facility, but as soon as more than half the deal is drawn the actual return to banks starts to rise in a way that is normally allowed by the inclusion of a utilisation fee.

Peugeot, the car manufacturer, is in the market too. It is guarantor for a £75m, seven-year facility for Peugeot-Talbot and Peugeot Finance International, the group's UK and financing units respectively.

Samuel Montagu and Barclays have been given the mandate for the deal but terms are not being disclosed. However, a sterling commercial paper option has been included in case the rules requiring a UK listing for companies borrowing in this market should change.

Elsewhere, the spate of renegotiations in southern Europe continues. Among the latest is a deal for Autopistas de Navarra of Spain which is led by Bank of Tokyo and carries a partial state guarantee. The amount is in two separate tranches of DM 148m and SFr 42m and the deal was originally signed as recently as May 1985.

The 10-year maturity is not being changed but the margins are sliding remorselessly. The guaranteed portion which originally bore a split ⅜-½ margin will now carry a margin of just 10 basis points. That on the non-guaranteed portion falls to 21 basis points from a split ⅝ and ¾ point.

It is in Italy, however, where some of the toughest renegotiation terms are being set. Morgan Guaranty was in the market last week with an Ecu 315m renegotiation for ENI, the state-owned energy group. The deal, which has a six-year final maturity, has already been renegotiated once but now a margin of just 6.25 basis points is proposed for the first two years, rising in stages to 10.

On Friday the market was awash with unconfirmed rumours that First Chicago planned a renegotiation for the regional development authority Isveimer carrying a new margin of just 5 basis points.

Japanese banks, which originally took up large amounts of these Italian loans, are now beginning to resist such low terms as they see no particular advantage in going along with them. Their return is reduced without any particular compensating reward in the form of a lead management position.

As a result bankers believe that such renegotiations would become progressively more difficult were it not for the fact that most of this business is now complete. With the oil price touching new lows and interest rates dropping, it is also unlikely that most southern European countries will have much alternative business to offer.

Pfizer International Bank, the offshore bank set up by the US chemical group last November, is launching a $100m certificate of deposit programme for which Shearson Lehman, Chase Manhattan and Swiss Bank Corporation International will be dealers.

Sumitomo Trust and Banking has increased its $750m certificate of deposit programme to more than $1bn and added Merrill Lynch and Morgan Stanley as dealers.

Chase Manhattan and Kleinwort Benson are leading a renegotiation of last year's £200m facility for the UK mortgage company First National Securities which is being increased to £250m in the process.

BancOklahoma in talks over ailing unit

BY TERRY DODSWORTH IN NEW YORK

BANCOKLAHOMA, the Tulsa holding company for a group of banks in the hard-hit oil producing region of Oklahoma, has initiated discussions with bank regulators on problems at its Bank of Oklahoma subsidiary after incurring a heavy $50.8m loss in the second quarter.

The crisis at BancOklahoma, one of the state's three largest bank holding companies with assets of about $2.7bn at the end of last year, follows the rescue last week of First National Bank and Trust Company of Oklahoma by the Los Angeles-based First Interstate Bancorporation. It further highlights the loan problems of banks involved in the real estate and energy sectors.

Mr Leonard Eaton, chairman of BancOklahoma, said the group's banks in the Tulsa area had continued to perform "relatively well," generating net operating profits of $4.2m in the quarter. However, the Bank of Oklahoma subsidiary, acquired by the group only two years ago, had a net operating loss of $10.4m.

This deficit had led to a $42.8m write off of goodwill by the parent group, reflecting the difference between the purchase price and the adjusted book value of the Oklahoma City unit.

BancOklahoma's second quarter losses followed a $44m deficit in the first quarter of the year, pushing the group's primary capital ratio – the measure of a bank's ability to cushion further losses – below the regulatory guidelines. According to Mr Eaton, the holding company's primary capital now stands at 4.6 per cent of total assets against the 5.5 per cent required by federal regulators.

The Oklahoma City unit, blamed for the banking group's problems in the quarter, accounts for about 20 per cent of the parent company's total assets, with $395.6m loans outstanding. Almost 20 per cent of this lending falls into the non-performing category designated for sick loans. For the holding company as a whole, about 38 per cent of loans are in the depressed real estate sector and 15 per cent in energy.

Shorter maturities show strength following US interest rate cuts

ONE SYNDICATE manager, harking back to a 1960s hit version of the song Summertime, describes present activity in the primary market as "the *Mungo Jerry revival*." While certainly not lazing around, the market is doing a little bit here, a little bit there, with no overall trend or theme, writes Alexander Nicoll in London.

As usual, the cut in US interest rates of the previous week was not immediately reflected in the dollar fixed rate Eurobond market, though strength showed through first in shorter maturities. The widening of yield spreads between Eurobonds and US governments did allow some houses to reduce inventories of unsold paper they had been keeping for the summer sales and by the end of the week Eurobonds were catching up with New York.

The market was given another large chunk to handle, however, by a $500m issue for Norway, the country's first Eurobond for seven years. Issuing houses competing for the deal with Merrill Lynch Capital Markets felt it was launched too aggressively at just 25 basis points over five-year Treasuries, net of fees – the tightest pricing seen for some time.

Merrill, which insisted that the mandate had not been awarded on grounds of price, supported the issue with a consistent bid 1⅛ points below issue price, equivalent to the total fees. The deal quickly settled at a margin of about 35 basis points over Treasuries.

Though Merrill did buy back a fair amount of paper on Monday, the issue appeared fairly well distributed after that. At least for now it has rarity value and would clearly *be desirable for many portfolios. In addition,* it is intended to be a particularly liquid issue with co-managers having agreed to maintain quarter point spreads. Dealers said it was being actively traded.

The floating rate note sector continued its return to grace after a dull period earlier in the year. Wells Fargo and two US savings and loan institutions made issues which all went well. Oversupply in the straight sector coupled with uncertainty about future interest rate trends have spurred demand for assets with reasonable spreads over Libor.

The success of the $100m straight deal for Mercedes Benz Credit Corporation, an unrated borrower without the guarantee of its parent, underlined the Eurobond market's liking for the upmarket brand names with which its denizens are familiar. *By contrast, a similar issue for* Nordic Investment Bank was poorly received.

Elsewhere, supranational names fared well, including a Y50bn issue *for the World Bank and a DM 300m* deal for the Inter-American Development Bank.

In the convertible sector, Friday saw an enthusiastic welcome for a $100m issue from Newmont Mining of the US – convertible, like a previous issue which has been redeemed, into a block of shares in Du Pont held by Newmont. An earlier issue for Pacific Dunlop of Australia, however, was reduced from $75m to $65m.

As in the dollar sectors, new issues in the West German market were accorded a mixed reception. Renfe's FRN did well, but Bremer Landesbank's issue of bonds with warrants to buy more bonds took *some time before a co-management* group was formed with the market unsure how to value the warrants.

The West German market was also cautious about the first issue of naked warrants to buy federal government bonds, though Salomon Brothers in London, which led the deal with Bayerische Vereinsbank, said it sold out quickly. West German bond prices rose during the week by as much as half a point, aided mostly by currency bullishness.

In Switzerland, tightness in the short-term money market continued to weigh on bond prices, which fell about ¼ point. The general faltering in equity markets appeared to be leading to a greater emphasis on coupons among equity-linked issues.

Issues which traded for the first *time maintained or gained slightly* on their initial levels with the African Development Bank's SFr 100m par-priced deal entering the market on Friday at 98.

EUROMARKET TURNOVER
Turnover ($m)

	Straights	Conv	FRN	Other
Primary Market				
US$	2,182.4	43.5	887.1	2,705.2
Prev	2,579.6	76.1	2,313.5	1,745.5
Other	1,384.5	–	1,166.8	109.7
Prev	983.2	–	300.7	183.6
Secondary Market				
US$	21,418.3	1,179.2	13,097.1	6,814.6
Prev	21,391.8	1,480.7	12,775.0	4,178.0
Other	10,310.2	109.1	1,535.9	2,693.5
Prev	7,618.1	134.5	2,167.8	2,519.3

	Cedel	Euroclear	Total
US$	14,785.9	33,532.5	48,318.4
Prev	13,415.6	33,124.6	46,540.2
Other	8,066.5	9,243.3	17,309.8
Prev	6,444.2	7,463.0	13,907.2

Week to July 17 1986 Source: AIBD

Paper guide to be set

BY OUR EUROMARKETS CORRESPONDENT

RECOMMENDED guidelines for *the new sterling commercial paper* market are to be set up by a formal steering committee under the auspices of the British Bankers' Association (BBA).

The committee has grown out of an informal working group of bankers and other market participants meeting so far at the Bank of England. It will be chaired by Mr Gerald Leahy, President of the Association of Corporate Treasurers.

Unusually for a BBA committee, participation will not be restricted to bankers. The appointment of Mr Leahy, treasurer of Shire Trust, indicates a desire for a neutral chairman in a debate about a fiercely competitive market.

The Association of Corporate Treasurers has a keen interest in its own right because some of its members expect eventually to issue commercial paper directly without channelling it through appointed dealers.

The Bank of England will have observer status on the committee, which is expected to produce guidelines similar to those already published for forward rate agreements, interest rate swaps and interbank currency options.

The guidelines will not represent formal regulation but market participants will be under strong moral pressure to conform to them.

Among subjects already being studied are standard documentation, clearing arrangements, taxation and statistics.

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Big money stays on bond market sidelines

WITH Mr Paul Volcker, chairman of the Federal Reserve Board, due to appear for his midyear grilling on monetary policy by the Senate Banking Committee this Wednesday, the *bond market had an ample* excuse to play a cautious wait-and-see game last week. This is exactly what happened: the big money remained on the sidelines, allowing the market to slide largely sideways in relatively light trading.

The overall mood of the market, however, remains unquestionably towards firmer prices and lower rates over the longer term. It would not have been easy last week to find a Wall Street commentator or trader who did not believe that the Fed would have to cut the discount rate yet again—and possibly quite soon—following the previous week's reduction of ½ percentage point to 6 per cent. There is a broad consensus among economists that the economy is now so sluggish that more will have to be done to stimulate growth.

Two near-term concerns, however, are counterbalancing this overall *perception of the* direction of trading. The first in the Government's extremely heavy borrowing demands, which are expected to lead to the issue of about $30bn worth of new paper at the Treasury's quarterly refunding operations next month. There is concern that rates will have to be driven higher to attract investors into the refunding. The Japanese, for example, appear to have been selling longer-dated securities last week, heavily influenced by further declines in the dollar and the need to protect their foreign exchange position.

Second, the rapid rise in M1 money supply, underscored last week by the announcement of a whopping $7.4bn increase in the week to July 7, has led to inevitable questions about Fed policy. Although most analysts feel that M1 has been demoted to such a degree in the Fed's list of concerns that such increases can be easily tolerated, investors find it hard to forget the days when equivalent figures would have been an automatic signal for a tightening of the monetary reins. Chairman Volcker's testimony on this score will be examined as closely as a Moscow news item by a Kremlinologist.

In advance of Mr Volcker's appearance, a big clue to the Fed's current thinking was given after the close of trading late on Friday, when the central *bank released its half-yearly* monetary policy report indicating that it had more or less decided to ignore M1 for the rest of this year in setting its policy.

"Growth in excess of the established range would be acceptable," the report said, although it left the present guidelines for expansion in place.

The Fed statement also gave support to the consensus Wall Street perception of a weakening economy, downgrading the central bank's growth forecast for 1986 to 2.5 to 3 per cent from the projections of 3 to 3.5 per cent which it gave to Congress in February.

While still shooting for a pick-up in 1987, when the Fed is projecting real growth of between 3 and 3.5 per cent, the bank underscored its fears that this forecast could be scuppered by the weaknesses in the external sector. It stressed that a reduction in the towering trade deficit was of "central importance" for the improvement it is forecasting in the economy.

Wall Street's own views on the economy are in some cases considerably more bearish. There were several forecasts last week that the preliminary second-quarter figures for gross national product due out tomorrow will show growth of *only around 1.5 per cent against* the 2.9 per cent recorded in the first quarter. Many analysts are equally, if not more, downbeat for the second half of the year.

On Friday, for example, Mr Donald Straszheim, Merrill *Lynch's chief economist, said* he expected real GNP growth in the second half of the year "to be in the vicinity of plus 1 per cent and minus 1 per cent" an effective forecast of around zero growth. This would leave GNP up for the year by only 1.5 to 2 per cent.

Last week's economic figures did nothing to encourage a more optimistic view. The industrial production statistics showed output down by 0.5 per cent in June following an increase of 0.6 per cent in April and a decline of 0.4 per cent in May.

Inventory figures indicate a stock build-up, while June retail sales rose by only 0.2 per cent last month against an increase of 0.7 per cent in May—and most of this growth was highly dependent on the strength of car sales, which are being boosted largely by cheap financing.

In the light of these figures, talk of recession is gathering force on Wall Street—talk that was given added impetus last week by the bankruptcy of LTV, the nation's second largest steelmaker. Hence the view that rates will have to be *pushed* lower as fast as is practicable without causing a flight out of the dollar that would threaten the Government's funding needs.

"Though a 1 per cent discount rate cut soon is clearly justified," said Mr Philip Braverman, of Irving Securities, "the Fed is most likely to cut by another ½ point before the summer ends, and quite possibly again before the November elections. Even then there can be no assurance that a recession will be avoided."

Terry Dodsworth

US MONEY MARKET RATES (%)

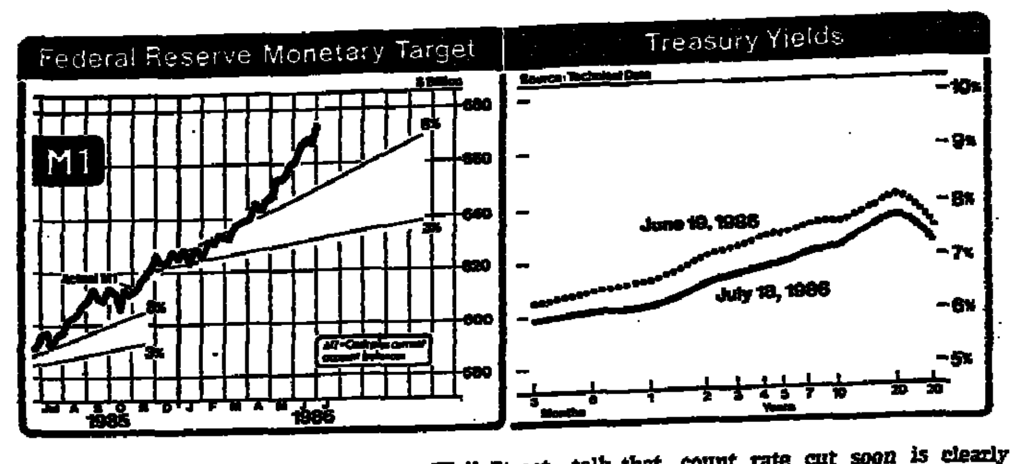
	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	6.46	6.87	6.86	9.91	6.46
Three-month Treasury bills	5.70	5.75	6.10	7.40	5.76
Six-month Treasury bills	5.77	5.79	6.17	7.48	5.79
Three-month prime CDs	6.32	6.39	6.70	8.10	6.35
30-day Commercial Paper	6.30	6.36	6.75	8.05	6.30
90-day Commercial Paper	6.25	6.25	6.60	8.00	6.25

US BOND PRICES AND YIELDS (%)

	Last Friday	Change on week	Yield	1 week ago	4 wks ago
Seven-year Treasury	101⅞	+ ⅞	7.05	7.21	7.58
20-year Treasury	118⅝	+ ½	7.70	7.75	8.08
30-year Treasury	100⅞	+ ⅛	7.18	7.19	7.46
New 10-year "A" Financial	N/A	—	8.50	8.50	8.70
New "AA" Long utility	N/A	—	9.25	9.25	9.50
New "AA" Long industrial	N/A	—	9.00	9.00	9.13

Source: Salomon Bros (estimates).

Money Supply: In the week ended July 7 M1 rose by $7.4bn to $673.9bn.



UK GILTS

Price fall flushes out genuine sellers

THE WEEK began and ended badly for the UK gilts market. Just as the sterling crisis that prompted gilts prices to fall had an insubstantial air to it, so too did the recovery in midweek appear somewhat contrived. Short-covering in both oil and currency markets had much to do with it, as did the diversion of attention back to the more intriguing topic of the dollar.

While many brokers reported thin trading whichever tack the market was on, there were moments when the broth appeared to thicken. Sterling's fall to DM 3.22 early in the week certainly aroused some corporate buying interest—though the same could not be said when it hit the same level on Friday and carried on through it. Equally, Friday's fall in the gilts market flushed out some genuine sellers.

The FT Actuaries all stocks index ended the week 1.42 points lower at 136.51. The 25-year *high* coupon *yield* rose 13 basis points on the week to 9.58 per cent, having touched 9.61 per cent on Monday.

The collapsing oil price is the most convenient scapegoat for the drop in sterling and gilts, yet this reaction is a little curious. The market only a few months ago was happy to accept the Chancellor of the Exchequer's assurance the North Sea accounted for only 5 to 6 per cent of UK national income and that a lower oil price was "broadly neutral—if anything, slightly beneficial" in *its overall effect on both output* and inflation in the UK.

The drop below $10 a barrel appears, however, to have touched a raw nerve. It is noticeable that in casual conversation dealers are now more likely to touch on the possibility of oil at $5 a barrel than on the probability of an eventual recovery to, say, $15 which used *to be a popular theme.*

Last week's industrial production statistics provided a reminder that, even at only 5 to 6 per cent of national income, a downturn in North Sea production can take its toll when output in the rest of British industry is going nowhere.

The fall of 1.4 per cent between April and May in the overall index of output of the production industries—almost entirely due to a 4.3 per cent drop in its energy industry component—may be dismissed as one month's figure and no indicator of a trend.

It is less easy, however, to shrug off the continued stagnation in manufacturing output, 0.9 per cent lower in May than it was a year earlier.

Coupled with the uncomfortable evidence of unemployment picking up to a trend rise of around 15,000 a month, this could point the Government in *the direction of accepting a* lower exchange rate in order to slow the decline in manufacturing employment.

Can this be risked when unit wage costs for the whole economy in the first quarter showed a rise of 6.8 per cent over the year? The answer could be yes, but not yet, according to Mr Gavyn Davies, of the US investment house Goldman Sachs.

"Mr Lawson has no desire to give the company sector the green light *for* 7½ per cent earnings growth to continue in *the pay round which will shortly* be getting under way," Mr Davies argues. "He may therefore wish to retain some sort of sterling-related squeeze on companies until the new settlement range becomes clearer in the late autumn."

George Graham

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Price	Chg. on week	Yield
AHFC O/S Fin 11¾ 94	100	105½	+0⅛	[illegible]
AIDC 11 89	75	107⅛	0	[illegible]
Alcan Australia 9½ 89	25	99½	+0⅛	[illegible]
Amer Saving 12 89	125	105⅝	0	[illegible]
Amer Saving 12¾ 89	100	106½	+0⅛	[illegible]
Asian Dev Bk 11¾ 93	100	118⅝	−1⅞	[illegible]
Australia 9¾ 91	80	101⅞	−0⅛	[illegible]
Australia 11¾ 90	100	112½	−0⅛	[illegible]
Australia 11¾ 98	100	122⅝	+2⅛	[illegible]
Austria 15½ 88	75	112⅝	+0⅛	[illegible]
Avon Fin 10⅝ 92	100	103⅝	+0⅛	[illegible]
Bk Nova Scotia 13⅝ 87	100	105⅛	0	[illegible]
Bank of Tokyo 12¾ 92	100	115⅜	−0⅛	[illegible]
Bank of Tokyo 13⅝ 91	100	122½	+0⅛	[illegible]
Bank of Tokyo 13⅞ 88	100	116⅝	+0⅛	[illegible]
BMW O/S Ents 10⅝ 91	50	107⅛	0	[illegible]
BP Capital 11¼ 92	150	109	+0⅛	[illegible]
Br Col Hydro 12½ 14	200	129⅞	+0⅛	[illegible]
Br Col Hydro 12½ 13	250	129⅞	+0⅛	[illegible]
Br Col Hydro 13¾ 88	150	111½	+0⅛	[illegible]
Britoil Fin 11⅞ 90	125	107½	0	[illegible]
Caisse Nat En 11¾ 95	125	121⅛	+0⅛	[illegible]
Canada 10½ 88	500	107⅛	0	[illegible]
CBS Inc 11¾ 92	100	108	−0⅛	[illegible]
Centrust S & L 10	1.2bn	11½	−0⅛	[illegible]
Chesebrough 12 93	100	110⅛	+0⅛	[illegible]
Chubu Elec Pwr 13⅝ 91	50	118	+5	[illegible]
Citicorp 10 88	200	104⅛	+0⅛	[illegible]
Citicorp O/S 10⅜ 90	100	106⅜	+0⅛	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Penney J C 12⅝ 91	100	111⅜	0	9.74
Phillips Petrol 14 89	200	102⅜	0	12.70
Postipankki 11¾ 90	75	106½	−0½	8.93
Post-Och Kred 13½ 87	50	105⅞	−0⅛	7.11
Privatbanken 12½ 95	100	120⅝	+0⅛	8.93
Prudential Ins 12⅝ 87	150	106⅞	0	7.03
Pru Rlty Secs 0 99	365	95	+0⅛	8.77
Pru Rlty Secs 11⅞ 92	398	107⅞	+0⅛	9.91
Pru Rlty Secs 12⅝ 95	545	116½	0	9.22
Quebec Prov 12⅝ 94	150	114⅝	0	9.49

FLOATING RATE NOTES	Spread	Price	Chg. on week	C.cpn
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Thailand ⅛ 05	60	99½	0	7⅛
Tokai Asia ⅛ 99	150	100⅛	+0⅛	7⅜
Toyo Trust Asia ⅛ 99	100	100⅛	+0⅛	7⅜
UBAF ⅛ 90	65	99⅞	0	7
Union Bank-Norw ⅛ 99	50	99	0	8⅞
United Kingdom 92	2.5bn	100½	0	6⅞
Wells Fargo ⅛ 94	150	99⅞	0	7⅛
Wells Fargo ⅛ 98	50	99⅝	+0⅛	7⅜
Yokohama ⅛ 94	100	100⅛	0	7½
Yorkshire Int ⅛ 94 £	75	100	0	10

BOND WARRANTS	Expiry date	Price	Chg. on week	Ex yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dai-Ichi K 6½ 96 B	1/1/96	119	−1¼	8.49
Du Pont 13⅝ 89	25/8/86	12½	0	6.32
Eksportfinas 13⅝ 89	15/9/87	126⅞	0	8.42
Holland Air 11⅛ 91	10/8/88	131⅛	+0⅛	8.31
Ind Bk Jpn 12⅞ 91	6/10/89	49	+3⅛	9.93
Mitsbsh Fin 12⅝ 91	8/11/88	162	−2½	8.94
J P Morgan 11⅛ 90	16/8/87	156	−3	8.79
Texaco Cap 12⅞ 92	1/9/87	79⅞	−1⅛	8.36
Wells Far A 12⅝ 91	27/12/89	75	+2½	−3.91
Wyrhsr Cap 11½ 90	16/11/87	163⅞	+1½	8.70
		82	+1	8.62

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for yen bonds, where it is in billions.

FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate (‡ three-month; § above mean rate) for US dollars. C.cpn=current coupon.

CONVERTIBLE BONDS: US dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.

WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price.

Closing prices on July 18.

CORPORATE FINANCE

Japan's banks fight domestic paper market

JAPAN's commercial banks have intensified a battle with the country's securities houses by coming out against the introduction of a domestic commercial paper market.

The Commercial Banks Association, consisting of 12 banks, is expected to issue an opinion this week saying that, in the banks' view, "it is too early to introduce commercial paper in the domestic market, since it is feared that this will upset Japan's financial order." It plans to press the Ministry of Finance not to permit the launch of a new market.

The move is the latest twist in a long-running argument in Japan which has been given added importance by the pressure on Japan to open up its financial markets by the development of commercial paper markets in other countries and by trading in Japan of commercial paper actually issued elsewhere.

Commercial paper is short-term, unsecured debt issued by companies and bought, particularly in the US where it is a $300bn market, by other companies with short-term cash surpluses. The UK, France and the Netherlands are among countries to have permitted it recently, and the Eurocommercial paper market has meanwhile been growing apace.

The banks' chief concern is that a commercial paper market would erode the close relationship which most Japanese industrial companies have with their main banks. They also say that enabling companies to raise large amounts of money without collateral runs counter to Japan's collateral conventions and would thus create market disorder.

Securities houses and Japanese industry, however, have been calling for the early launch of a new market. The powerful Keidanren, the federation of economic organisations, has established a sub-committee on the subject, and in a recent survey of over 500 listed companies, 78 per cent requested the introduction of commercial paper.

In May, the big four securities houses — Nomura, Nikko, Daiwa and Yamaichi—drew up draft rules for commercial paper issues. They invited the wrath of the banks by proposing that dealing would be restricted to securities houses only, arguing that if banks were allowed to deal commercial paper they would have complete control over Japan's short-term money markets.

The rules would designate commercial paper as negotiable securities under the Securities and Exchange Law, with denominations of Y10m, a credit rating system and pricing on a discount basis so as to avoid withholding tax.

Japanese companies' desire to issue commercial paper domestically follows a sharp increase in their issues of such paper abroad, both in the US and in the Eurocommercial paper market. Industry believes that domestic commercial paper would reduce their funding costs as well as providing greater flexibility.

Many companies are establishing overseas financial subsidiaries to take advantage of the more liberal environments, both in borrowing and investing money. Some have done so, for example, in the Netherlands in order to issue Eurocommercial paper, while others are engaging in active management of their cash surpluses, known as zaitech — making money from money.

The companies' argument is also based on the fact that an increasing proportion of banks' own borrowing is no longer at fixed interest rates which are then linked to their short-term prime lending rate. In the fiscal year ended March 1986, about 60 per cent of funds raised by the 13 city banks were from floating-rate instruments such as certificates of deposit, money market certificates and Gensaki.

The banks recently stepped up their pressure in the debate by asking the authorities to allow them to sell in Japan commercial paper issued overseas by Japanese companies. They have been allowed to deal domestically in overseas commercial paper issued by foreign companies since 1984.

Until now, the authorities have thought it appropiate to develop the Treasury bill and bankers' acceptances markets to maturity before establishing a commercial paper market. There is no full-scale Treasury bill market, and the bankers acceptances market has fallen far short of the targets envisaged when it was launched last year.

Yoko Shibata

Ralston Purina lifts profits by 8.5% in third quarter

BY ADRIAN DICKS IN NEW YORK

RALSTON PURINA, the big US animal food and consumer products group which sold its animal feed division to British Petroleum earlier this month for $500m, raised its third-quarter net income by 8.5 per cent to $62m from $57.1m on sales 9.2 per cent lower at $1.26bn compared with $1.39bn. Earnings per share were 82 cents, against 71 cents.

The company said operating results from all business segments were ahead of last year's performance and earnings were particularly good for Continental Baking, which Ralston Purina acquired from ITT in October 1984.

For the first nine months, the company earned $298.1m ($3.88 a share) on sales of $3.91bn, against $197.5m ($2.42 a share) on sales of $4.43bn in the same period last year.

As previously reported, current year earnings include extraordinary items from several disposals and restructuring operations largely in the restaurant business.

In addition to disposing of its animal feedstuffs interests to BP, Ralston Purina is engaged in several other moves that will transform its business. The largest of these is the prospective $1.4bn acquisition from Union Carbide of Eveready, the battery manufacturer that has 40 per cent of the US market and an estimated 30 per cent of the world market.

Libra Bank in £9.6m placement

By Peter Montagnon, Euromarkets Correspondent

LIBRA BANK, the London-based consortium bank specialising in Latin American business, has become the first bank to issue redeemable cumulative preference shares which may be counted as primary capital under new Bank of England regulations.

It has raised £9.6m through the placement of 10m in £1 nominal value of shares at a price of 99½ per cent with institutional investors in the City. The shares, which are redeemable in 30 years, will be listed in London from today.

Mr Frederic Haller, executive director, said the placement, carried out through Chase Manhattan Securities, made Libra the first consortium bank to sell equity to the public.

The result would be to strengthen its capital base, bringing shareholders' funds to £117.6m, "but the most important issue for us is exposure to a new group of investors."

Despite its heavy involvement in Latin America, Libra has shown consistent growth in pre-tax profits which amounted to £43m in 1985 and is turning its attention increasingly to merchant banking activities.

Second-quarter downturn at MCI Communications

BY OUR NEW YORK STAFF

MCI COMMUNICATIONS, the US long-distance telecommunications group, has announced a 54 per cent drop in second-quarter earnings to $16.4m, or 6 cents a share, from $34.3m, or 15 cents a share, in the same period last year. Revenues reached $942.5m in the period compared with $801.2m a year earlier.

The company said the most recent quarterly results include the consolidation for a full quarter of Satellite Business Systems, acquired from International Business Machines in late February. The preceding quarter, when MCI earned $19.8m on sales of $819m, included one month's results from SBS.

A further factor was the $30m extraordinary gain in the second quarter of 1985 resulting from the settlement of MCI's long-running antitrust litigation with Bell Atlantic.

Mr Bert Roberts, MCI's president, said the company was encouraged by revenue growth in the quarter, especially in areas where telephone subscribers have equal access to the long-distance lines operated by competing carriers.

In recent months, however, MCI has made clear that its future revenues are likely to come under some pressure from steep cuts in domestic long-distance telephone rates.

Monsanto to sell container unit

BY OUR FINANCIAL STAFF

MONSANTO, the US chemicals company which last year moved dramatically into pharmaceuticals with the $2.8bn acquisition of G. D. Searle, has put its container business up for sale as the latest element of a rationalisation programme.

The unit of its Monsanto Chemicals subsidiary employs about 1,500 people in making plastic bottles and other containers. No price was specified; Monsanto said only that the business was profitable but no longer fitted the group's strategic goals.

In May, Monsanto announced the planned sale of its US polystyrene commodity plastics business to Polysar of Canada, and last November shed its oil and gas side, primarily to Broken Hill Proprietary.

Storage Technology turnround

BY OUR FINANCIAL STAFF

Storage Technology, the Colorado computer peripherals company which has been operating under Chapter 11 bankruptcy protection since October 1984, returned to profits in the first half to June.

Second-quarter net earnings were $6.49m or 19 cents a share, compared with losses a year ago of $15.94m or 46 cents per share. Revenues were $171.7m against $172.6m.

For the six months, earnings emerged at $9.50m (27 cents per share), a turnround from a deficit of $39.44m (85 cents), achieved despite a slight dip in sales to $333.7m from $334.6m.

The results were further enhanced for each of the 1986 periods by $2.59m arising from the renegotiation of an executory contract.

AMC plans $186m convertible issue

BY TERRY DODSWORTH IN NEW YORK

AMERICAN Motors (AMC), the troubled US car manufacturer in which Renault of France has a 46.1 per cent stake, is planning to raise $186m from a public offering of convertible preferred stock.

The company said the offer would result in a partial reorganisation of Renault's investments, but did not indicate to what extent the nationalised French group was participating. At the end of last year Renault injected $50m into the American group through the acquisition of debentures, but since then there has been repeated speculation about the commitment of the French company. It is losing money heavily in France and is being threatened with privatisation.

AMC has been under heavy financial pressure this year because of flagging sales of its Alliance and Encore small cars, which are derivatives of the Renault 9 range in Europe. It has had a long and finally successful battle with its union over wage concessions and is now faced with major investment decisions over future plant locations.

Its financial problems were underscored by second-quarter figures which showed losses of $52m against a deficit of $70.4m in the same period of last year, while sales slipped to $800.8m from $961m. In the first six months of the year losses amounted to $71m compared with a deficit of $99m on 1985, while sales were down to $1.7bn from $1.9bn.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book Runner	Offer yield %
U.S. DOLLARS							
National Guardian §‡	35	2001	15	7½	100	Shearson Lehman Bros	7.500
Commercial Shearing §‡	25	2001	15	6	100	Kidder Peabody	6.000
Yakult Honsha ¶‡	50	1991	5	2¾	100	Daiwa Europe	2.750
Pacific Dunlop §‡	65	1996	10	7	100	CSFB	7.000
Norway ‡	500	1991	5	7¼	101½	Merrill Lynch	6.885
Burlington Ind. §	75	2001	15	(7–7½)	100	Kidder Peabody	*
Kumagai Gumi ¶	100	1993	7	(3½)	100	Daiwa Europe	*
Mitsubishi Plastics ¶	30	1991	5	(2⅞)	100	Nikko Secs. (Europe)	*
Northeast Savings (c) †‡	150	1996	10	10bp	100	CSFB	–
Danish Export Fin. (d) ‡	100	1989	3	10	101¼	Salomon Brothers	9.502
Lorimar Telepictures §	100	2001	15	5¾	100	Drexel Burnham Lambert	*
Nordic Investment Bk ‡	100	1993	7	7½	100¾	Salomon Brothers	7.359
Mercedes Benz Credit ‡	100	1993	7	7½	100	Deutsche Bk Cap. Mkts	7.500
Denmark (e) ‖‡	100	1991	5	10	101⅝	Dai-Ichi Kangyo Int.	–
Wells Fargo (f) †‡	200	1998	12	⅛	100	Morgan Stanley	–
SNCF (h) ‡	100	1993	7	7⅛	99⅞	Societe Generale	7.273
Santa Barbara S & L (g) †‡	100	1996	10	1/16	100	CSFB	–
Mitsui Petrochemical ¶	70	1991	5	(2¾)	100	Nomura Int.	*
Espirito Santo Fin. §‡	40	2001	15	8	100	Morgan Grenfell	8.00
Japan Coated Paper ¶	25	1991	5	(2⅞)	100	Nikko Secs. (Europe)	*
Newmont Mining §	100	2001	15	(7¼)	100	Salomon Brothers	*
CANADIAN DOLLARS							
Hydro-Quebec (a) ‡	150	1996	10	9¼	100⅞	Yamaichi Secs.	9.113
D-MARK							
Hoesch Int. ¶‡	200	1996	10	2½	100	Deutsche Bank	2.500
Renfe (b) †‡	625	1996	10	1/32	100	Morgan Guaranty	–
IADB ‡	300	1996	10	6¼	99¾	Deutsche Bank	6.284
Bremer Landesbank ɸ‡	100	1996	10	6⅜	102.9	UBS (Germany)	5.981
ECSC** ‡	145	1996	8	6	99¾	DSL Bank	6.034
Bentsler Finance** ‡	75	1993	7	6¾	100	CSFB-Effectenbank	6.750
SWISS FRANCS							
Toyo Menka** ¶‡	200	1991	–	¾	100	Swiss Volksbank	0.750
Japan Elec. Computer** ‡	50	1993	–	5⅛	100¼	Bqe Paribas (Suisse)	5.082
Mitsui Petrochemical** §	100	1991	–	(1)	100	UBS	*
FRENCH FRANCS							
Norsk Hydro ‡	500	1993	7	8	100¼	Banque Paribas	7.952
GBL Finance ¶‡	600	1993	7	8⅛	116	Banque Paribas	5.327
LUXEMBOURG FRANCS							
Eurofima** ‡	300	1989	3	7	100¼	BGL	6.905
EIB** ‡	300	1992	6	7¼	100	Kredietbank Int.	7.250
GUILDERS							
World Bank ‡	300	1996	10	6¼	99¼	ABN	6.354
DANISH KRONER							
Den norske Creditbk ‡	250	1991	5	9⅝	100½	Copenhagen Handelsbk	9.495
YEN							
World Bank ‡	50bn	1996	10	5¾	100½	Nikko Secs. (Europe)	5.683
Bayerische Vereinsbk ‡	10bn	1991	5	5⅞	101½	Sumitomo Fin. Int.	5.524

* Not yet priced. ‡ Final terms. ** Private placement. § Convertible. † Floating rate notes. ¶ With equity warrants. ɸ With bond warrants. ‖ Currency linked. (a) Shogun issue. (b) 1/32 over 6m Libor. (c) 10bp over 6m Libor. (d) Unlisted, redemption amount linked to US T-bond. (e) 10 per cent nominal (comprising US$ 15½% and yen 6½%). (f) ⅛ over 3m Libor. (g) 1/16 over 3m Libor. (h) Partly-paid. Note: Yields are calculated on AIBD basis.

UK COMPANY NEWS

Associated British Eng. makes another cash call

Associated British Engineering has unveiled its fourth rights issue in six years along with its results for the year to end-March 1986.

The rights, which will raise £1m, involves the issue of 53.58m new 1p ordinary shares at 2p each. Basis of the issue is one new ordinary for every two held, and 25 ordinary for each convertible preference share.

The company's annual results showed a turnround from losses of £1.75m to taxable profits of £269,000 although the second half was disappointing, producing a £1,000 loss.

Turnover fell from £30.16m to £25.67m, but generated an operating profit of £788,000 compared with a loss of £872,000.

Interest charges totalled £652,000 (£826,000) and the directors considered the group's level of borrowings too high.

Earnings per share were 0.08p (losses 7.5p), before extraordinary debits of £522,000 (£2.84m). The last dividend payment was made in 1983.

The directors said the second half proved to be an exceptionally difficult period. The drop in oil prices had a significant effect on profits and prospects of Danway, which operates in the Middle East.

The British Polar Engines subsidiary suffered a loss of business due to the inability of a major supplier to provide a component to the appropriate specification under a contract which had now been concluded.

Some delays in the finalisation of significant contracts for the Dawson-Keith subsidiaries resulted in a lower contribution than was expected.

The shares fell 4p to 9½p on Friday.

Bromsgrove profits doubled

Bromsgrove Industries, the Droitwich, Worcestershire, manufacturer of aluminium castings, more than doubled its pre-tax profits in the year to March 31 1986. The figures showed profits up from £212,000 to £441,000 on sales 27 per cent higher at £6.84m compared with £5.38m.

Mr Bijan Sedghi, the chairman, who predicted in his last annual report that the figures would advance, said the prospects for the current year remained good. "There will be organic growth from existing operations derived from the investment in additional plant and equipment."

Furthermore, the recent acquisitions of the businesses of Shilton Foundry and Peterborough Die Casting had resulted in the expansion of processes, product ranges and customer base with a significant entry into the domestic appliance market.

The business assets of Peterborough Die Casting were acquired from the Receiver last month for £375,000.

The final dividend is increased from 0.7p to 0.9p net for a total of 1.3p (1p). Stated earnings per 5p share improved from 5.2p to 6p on a net basis, and from 2.4p to 5.7p fully diluted.

Tax for the year was £153,000 compared with a credit of £37,000 in the previous year. After tax and dividends, which absorbed £62,000 (£49,000), retained profits were £25,000 higher at £226,000.

The consolidated balance sheet at March 31 1986 is expected to show shareholders' funds up from £1.52m to £1.74m.

Mr Sedghi said the board was committed to further substantial growth by acquisition and was actively identifying suitable prospects.

Allied facing Canadian court delay

A FAST resolution of key litigation over the proposed acquisition by Allied-Lyons of the distilling business of Hiram Walker Resources, is fading.

The Ontario Supreme Court has agreed to try to reconvene the Ontario divisional court, which early this month refused an appeal by Olympia and York Developments, owned by the Reichmann Brothers of Toronto, to block the sale of Hiram Walker's distilling assets to Allied-Lyons.

Olympia earlier this year won voting control of Hiram Walker, and since then has been trying in the courts to negate action by the previous Hiram Walker management to sell the distilling assets to Allied-Lyons for C$2.6bn (£1.26bn).

Lawyers for both Olympia and Allied-Lyons told the Ontario Supreme Court they could not agree on certain parts of the Ontario divisional court ruling, including those relating to the Allied-Lyons sale contract.

The Supreme Court also agreed to adjourn to July 29 Allied-Lyons' suit against Olympia seeking to complete the sale contract. The deal is scheduled to close on September 30.

COMPANY NEWS IN BRIEF

RIVER AND Mercantile Trust earned £1.42m (£1.27m) net in the first half of 1986. Earnings per share were 2.89p (2.6p) and net asset value was 207.1p (161.8p). Interim dividend 2p (1.8p).

BOGOD-PELEPAH, distributor of sewing machines and parts, made £216,000 (£253,000) pre-tax in year to end-March 1986. Turnover was £5.34m (£5.97m). Final dividend on ordinary unchanged at 0.2p for 0.31p (0.3p) total. Final dividend on "A" ordinary unchanged at 0.4p for 0.62p (0.6p) total.

HILL THOMSON & CO, blender and bottler of Scotch whisky, reported pre-tax profits down from £1.49m to £1.14m in the year to January 31 1986. Turnover, excluding duty, was £9.01m (£9.82m). There was a tax credit of £245,000 compared with a charge of £38,000. The company is ultimately owned by Seagram of Canada.

DEWHURST, electrical control equipment maker, improved pre-tax profits from £166,000 to £187,000 in the half year to March 30 1986 on turnover up at £2.24m (£2.06m). The interim dividend is lifted to 0.4p (0.35p) and earnings per 10p share were 1.98p (1.59p). Directors said reduced demand in the second quarter would reflect in the second half figures. Tax was £45,000 (£52,000).

MAYFAIR & CITY Properties saw pre-tax profits of £918,000 (£987,000) in the year to March 31 1986. With earnings per share at 4.8p (4.5p) on an annualised basis the final dividend is raised from 1.7p to 1.9p for a 3p total (2.7p) per USM share. Gross income from investment property came to £1.24m (£1.49m).

Quest Automation £365,000 in the red

ADVERSE TRADING conditions in the electronics industry hit Quest Automation, Hampshire-based computer products supplier, in the year ended February 28 1986. Although second half profits of £124,000 were achieved, the company suffered a £365,000 loss for the year against profits of £307,000.

The directors stated that the second half results showed some of the benefit of the company's cost reduction exercise, the full effects of which would be felt in the current year.

Trading levels as a whole had improved in the current year, they said, and, subject to no further significant downturn in the electronics industry they expected the group to make a profit in the current first half.

Turnover for the year improved from £11.68m to £12.23m. Technical and development expenses took £603,000 (£699,000), and interest charges more than doubled to £710,000 (£302,000). There was a loss of £25,000 (£4,000 profit) being the share of the associated company's results.

There was again no tax, and no dividends are being paid. Losses per 10p share are shown as 0.06p (2.09p earnings).

Extraordinary debit of £38,000 (nil) represented the additional costs of closure relating to the group's former associated company.

Glasgow Stockholders

Net profits at Glasgow Stockholders Trust improved from £432,040 to £455,853 over the first six months of 1986.

Earnings per 25p share rose to 1.35p, against 1.27p. A higher interim dividend of 0.95p (0.85p) is being paid. Net asset value per share at the end of the period was 164p (134p).

Gross revenue was marginally lower at £1.15m (£1.19m). Franked income from the UK portfolio rose by 15 per cent, but franked income from the overseas portfolio and from liquid funds fell by a similar amount.

Pacific Investment

Pacific Investment Trust announced that it had decided to explore the possibility of some form of unitisation.

However, it emphasised that there were substantial technical problems, including those affecting warrant holders, which might not be overcome.

The decision was taken at a board meeting immediately after the AGM, where it was announced that net asset value per share, based on unaudited figures at July 15, had risen to about 136p, undiluted for the effect of the exercise of outstanding warrants.

Second half loss at Norbain Electronics

Norbain Electronics, the USM distributor of electronic components, plunged into the red in the year to April 30 1986. After reporting pre-tax profits of £1.11m in the previous year, and halftime profits of £333,000, Norbain reported losses of £166,000.

The directors said the results reflected a period of heavy investments during a year of difficult trading conditions. Emphasis had been on growth and that had been achieved in all areas. The acquisition of Scan Computer Supplies had been successful and was contributing to profitability.

They added that while the current level of gearing was unacceptable, trading to date had shown a positive cash flow. To restore the company to an acceptable level of profitability, significant actions had been taken.

During the year, the company's eight subsidiaries were formed into four operating groups. That had resulted in considerable savings, while sales continued to move ahead.

During the year, group turnover rose from £13.79m to £19.42m, but trading profit fell from £1.25m to £187,000. The dividend is cut from 1.2p to 0.7p, and the loss per 5p share was 0.94p weighted average, against earnings of 9.5p.

Control Techniques ahead

FIRST HALF pre-tax profits at Control Techniques, a South Wales-based manufacturer of variable speed drives, climbed from £356,000 to £606,000 in the period to March 31, 1986.

An interim dividend of 1p net was announced—last year there was a single payment of 1.8p from pre-tax profits of £1.1m. Stated earnings per 10p share rose from 2.5p to 4.1p.

The directors said the continuing development of new products and strengthening of the company's overseas sales network, together with the technology transfer projects, continued to give strong confidence in future growth.

However, the traditional UK market for DC drivers was currently depressed and that might have an impact on group results in the second half.

Group turnover in the opening half was up from £2.7m to £4.42m.

Thorpac leaps to £0.2m

Thorpac Group, a USM-quoted distributor of deep freeze packaging and microwave cookware, achieved more than treble taxable profits of £231,000, against £75,000, in the year to end-March 1986.

Shareholders are set for a higher final dividend of 1.5p (1p), lifting the total by 0.5p to 2.5p. Earnings per share were 6.2p (2.2p).

The company said that sale of microwave cookware ranges grew substantially as it strengthened its position in this expanding market.

The pre-tax profits improvement, the company said, reflected results of further growth in sales and reorganisation of packaging and distribution operations, and the closure of three depots. Group turnover totalled £4.65m (£4.11m).

Greenfriar Inv. net assets soar

Net asset value per 25p share at Greenfriar Investment Company soared from 277.8p to 416.7p in the year to June 30 1986. Assuming full conversion of warrants they improved from 250.7p to 367.1p, and per warrant were 255.1p compared with 138.7p. Stated earnings per share were up from 0.75p to 0.93p.

Earnings before tax for the six monhs to June 30, 1986 were up from £84,400 to £112,500. Income from investments included £208,800 (£200,700) from dividends, and interest on short-term deposits climbed from £3,100 to £19,000. Other income amounted to £28,100 against £17,000.

The pre-tax figure was after interest charges of £97,700 (£91,900) and administration expenses of £46,400 (£45,200).

FT Share Information

The following securities have been added to the Share Information Services:

Alumasc (Section: Industrials), Blick (Electricals), Ford & Weston (Industrials), Haggas (John) (Textiles), Monotype Corp (Paper, Printing and Advertising), Nationwide Building Society 9¹¹⁄₁₆% 15/6/87 (Loans, Building Societies), Savage Group (Industrials).

SIMON ENGINEERING offshoot, Calibration Systems, has acquired DMR Calibration and Repair Services of Nottingham. The value of net assets acquired amounted to £80,000.

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus*) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year
*ASDA-MFI	July 21	Final due
Ault and Wiborg	Aug 23	Interim due
*Barclays Bank	Aug 7	Interim 8.4
*Britoil	July 25	Interim 3.3
*Commercial Union	Aug 13	Interim 4.85
De Beers	Aug 20	Interim 15c
*Doe Corpn.	July 29	Final 4.0
*Dowty	July 23	Final 2.8
*GKN	Aug 6	Interim 4.5
General Accident	Aug 14	Interim 8.0
Glynwed	Aug 5	Interim 3.75
Gold Fields SA	Aug 20	Final 80c
Great Universal Stores	July 18	Final 11.75
Hawley	Aug 21	Interim 1.75c
Hickson Intl.	Aug 19	Interim 5.0
Horizon Travel	Aug 22	Interim 0.88
*ICI	July 24	Interim 13.0
*Lister	June 30	Final 0.25
*Lloyds Bank	July 25	Interim 7.5
McAlpine (A.)	Aug 20	Interim 3.8
*Mercantile House	July 30	Final 9
*Midland Bank	July 31	Interim 11
*NatWest Bank	July 29	Interim 10
Ocean Transport	July 31	Interim 2.15
Queens Most Houses	Aug 20	Interim 0.765
*Rentokil	Aug 19	Interim 0.89
*Royal Insce	Aug 14	Interim 9.2
STC	Aug 9	Interim nil
Securicor	Aug 7	Interim 0.49
Smith and Nephew	Aug 8	Interim 1.4
Smith (W. H.)	Aug 21	Final 0.943
Standard Chartered	Aug 20	Interim 10.5
*TI	Aug 7	Interim 5.0
Tomkins (F. H.)	July 29	Final 1.475
Transport Dev.	Aug 12	Interim 1.7
Tricentrol	Aug 14	Interim 4.0
Ultramar	Aug 14	Interim 4.0
Yorks Chms	Aug 8	Final due

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

BOARD MEETINGS

TODAY

Interims: Robert H. Lowe, Neil and Spencer, Temple Bar Investment Trust.

Finals: Arlen, ASDA-MFI, CASE, Fleming Enterprise Investment Trust, Gilbert House Investments, Goring Kerr, Real Time Control, Stormgard.

FUTURE DATES

Interims—

C.S.C. Investment Trust	July 30
Commercial Bank of Wales	July 29
Cowie (T.)	Aug 4
Edinburgh Amer. Assets Tst.	July 24
GKN	Aug 6
Lex Service	July 31
Trencherwood	Aug 13

Finals—

Dyson (J. and J.)	July 24
Hidong Estate	July 29
Meat Trade Suppliers	Aug 12
Merrydown Wine	July 29
Parkfield	July 28
Radiant Metal Finishing	July 25

SHARE STAKES

CHANGES in company share stakes announced over the past week included:

Marler Estates.—Glen Internationals' holding as at July 11 amounted to 480,000 ordinary (9.62 per cent).

Bristol Channel Shiprepairers.—As a result of the disposal of 1m ordinary C. H. Bailey has an interest of 39.09m shares (49.3 per cent).

J. Rothschild Holdings.—The following directors purchased ordinary shares on July 16 and 17 at prices ranging from 120p and 126p—Mr Jacob Rothschild 800,000 and Mr N. Taube 200,000.

Alfred McAlpine.—Mr R. J. McAlpine, director sold 75,000 ordinary on July 11.

Anglo-Nordic Holdings. — Chairman Mr B. Wolfson purchased 50,000 ordinary at 23p.

FINANCIAL TIMES STOCK INDICES

	July 18	July 17	July 16	July 15	July 14	July 11	1986 High	1986 Low	Since Compilation High	Since Compilation Low
Government Secs.	88.88	89.48	89.48	89.00	88.92	89.91	94.51	80.39	127.4	49.18
Fixed Interest	95.92	96.14	96.01	96.35	96.15	96.87	97.68	86.55	150.4	50.53
Ordinary	1295.4	1316.8	1306.3	1302.6	1309.9	1337.3	1426.9	1094.3	1425.9	49.4
Gold Mines	185.7	186.3	188.5	190.3	196.4	198.1	357.0	185.7	734.7	43.5
FT-Act All Share	797.84	797.37	792.95	790.83	794.28	805.36	832.39	664.42	832.39	61.92
FT-SE 100	1584.4	1609.3	1597.3	1593.0	1597.3	1626.4	1717.6	1370.1	1717.6	986.9

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price	+ or –	Net. Div.	Times Cov'd	Gross Yield	P.E. Ratio
§125	F.P.	24/7	167	136	♦Accord Publications 5p	167	.....	Rd3.1	2.6	2.6	21.1
‖‖	F.P.	15/8	127	112	♦Airsprung Group 10p	115	.....	5.4	2.8	6.6	7.6
§115	F.P.	—	141	128	♦Anglia Sec Homes 10p	136	–5	R1.63	5.0	1.7	16.8
115	F.P.	11/7	190	155	Arlington Sec. 10p	180	.....	b1.7	4.3	1.3	24.7
§67	F.P.	8/8	71	68	♦BBB Design Grp 5p	70	.....	L1.0	4.2	2.0	16.8
§145	F.P.	15/8	158	145	♦Bemrose 5p	152	.....	u5.0	2.4	4.6	12.0
‖‖	F.P.	—	53	41	Bertrams Inv. Tst.	44	+1	—	—	—	—
§37½	F.P.	25/7	43½	38	♦Bipel 5p	43	.....	R1.225	3.1	4.0	10.8
125	F.P.	8/8	147	128	♦Borland Intl. Inc	136	+4	u02c	1.4	1.0	19.0
145	F.P.	25/7	175	148	Brodero Props	154	+4	R4.25	2.3	3.9	13.1
§60	F.P.	20/6	63½	54	♦Brit. Isl. Airways 10p	55	.....	bd2.82	2.1	7.2	7.7
§63	F.P.	6/8	69	63½	♦Camtech 10p	69	+2	R2.0	2.4	4.1	14.1
§110	F.P.	18/7	125	85	♦C'bell & Armstrong 5p	85	.....	u3.91	1.9	6.5	10.1
§125	F.P.	7/8	135	130	♦Chelsea Man 5p	130	.....	L2.2	2.8	2.4	21.4
‖‖	F.P.	10/7	110	85	Clarkson (Horace)	105	+1	14.75	1.5	6.4	14.4
¶¶	F.P.	—	100	66	Clayform Warrants	66	–2	—	—	—	—
§84	F.P.	1/8	91	84	♦Coated Electrodes 5p	87	+2	u3.9	1.6	6.3	13.6
237	100	—	110	90	Dee Corp.	101	–2	5.8	1.9	3.5	18.5
§58	F.P.	4/7	82	59	Denistron Intl 5p	80	–2	a1.65	2.1	2.9	20.5
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price £	+ or –
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

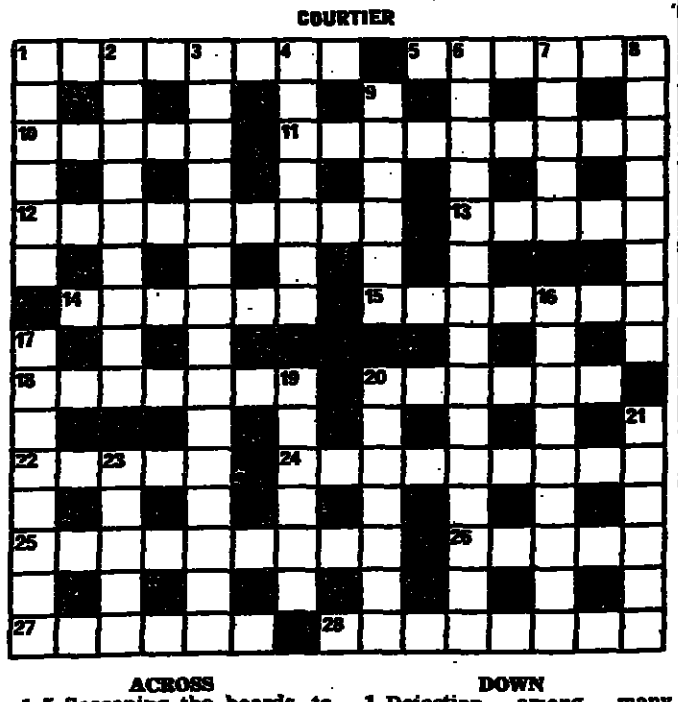
"RIGHTS" OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price p	+ or –
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible] latest annual earnings. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. t Indicated dividends; cover relates to previous dividend; p/e ratio based on latest annual earnings. e Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. ¶ Issued by tender. ‖ Offered holders of ordinary shares as a "rights." ‖‖ Introduction. ** Issued by way of capitalisation. § Placing price. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or takeover. ▮▮ Allotment price. ♦ Unlisted securities market. †† Official London listing. ‡‡ Including warrants entitlement. ‡‡Units comprising new ord. & Cm. Cnv. Red. Pref. shares.

FT CROSSWORD PUZZLE No. 6078

COURTIER



ACROSS

1, 5 Seasoning the boards, to make furniture perhaps (8, 6)
10 Simply a great many undernourished (5)
11 Before being a soft touch became an imposter (9)
12 A seasonal swallowing movement (9)
13 In conclusion, I claim this order is Greek to me (5)
14 *Dull deity untidily* at home with the pigs (6)
15 Direction a team might take to the coast? (7)
18 Act tied to firm order (7)
20 Smiles about a number of pounds (6)
22 *This ally is* reasonably organised (5)
24 Bill the sea-farer joins a large number encrusted in *the main* (9)
25 Vamoose round the desk with a cleric and the French! (9)
26 This circle is driven underground on target (5)
27 Arrange date on which to make a contribution (6)
28 By converting tritium to phosphorus, birds become dogs! (8)

DOWN

1 Dejection among many under direction to depart (6)
2 Entice Reg round to be lively (9)
3 Ginger and Fred's stock in trade (4, 3, 5, 3)
4 Quickly, as in a pincer movement? (7)
6 Crimea is a nation perhaps—but not as a result of this process (15)
7 Call a dentist to reveal a *burdened state* (5)
8 Deleted a subterfuge discovered in the Senate (8)
9 In which the combatants are taken to court (6)
16 Need Colin turn to such inactivity? (9)
17 I had simply oiled about a quarter to be so venerated (8)
19 Printers measure the corpse in concrete form (6)
20 Dress down a chap surrounding a member (7)
21 Loves to take winding roads *in a certain direction* (6)
23 Scrape together a gram to rely on (5)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

Fund	Bid Price	Offer Price	+ or –	Yield Gross
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

AUTHORISED UNIT TRUSTS & INSURANCES

Wardley Unit Trust Managers Ltd (a)
Wardley House, 7 Devonshire Sq, EC2 — 01-929 1532

American Tst.	63.1	67.9xd	+0.7	1.8
Far East & Gen. Tst.	101.8	108.3	+2.1	1.0
Intl. Growth Tst.	67.7	72.1xd	+1.0	0.7
Income Tst.	84.3	90.6	+0.4	5.6
Japan Growth Tst.	122.0	131.2	+2.2	0.2
Small Cos. Tst.	113.3	121.9	+0.1	2.0
Tecnlgy. Tst.	32.6	35.0	+0.4	0.2
Australia Trust	36.7	39.4	+0.4	1.9
UK Trust	129.5	137.1	-0.3	2.7
European Growth Tst.	49.3	52.5xd	+0.9	1.2
Hong Kong Tst.	21.0	22.3	+0.1	1.6

Waverley Asset Management Ltd (a) (c) (g)
13 Charlotte Sq, Edinburgh — 031-225 1551

Australasian Gold	15.5	16.5	+0.3	0.15
Pacific Basin	13.3	14.2	+0.2	0.2
Canadian Balncd Grwth	57.8	61.8	-0.3	0.98
Ginnie Mae	100.9	105.1	.....	7.3

WestAvon Unit Trust Managers Ltd(a)(c)
9 Portland Square, Bristol BS2 8SS — 0272 428431

British Smllr Co's (z)	57.2	59.3	+0.6	1.00
British Growth (z)	66.9	68.9	+0.7	1.50
British Income (z)	65.2	67.1	+0.1	4.50
British Extra Yield(z)	50.8	52.2xd	+0.2	6.50

Whittingdale Unit Trust Managers
2 Honey Lane, London EC2V 8BT — 01-606 9085/6

Short Dtd Gilt Fd	47.4	48.5	.....	0.00
U.S. Govmt Bond F	$0.505	0.508	.....	—

Windsor Trust Mngrs Ltd
83 Kingsway, London, WC2B 6SD — 01-405 8331

Capital & Equity Tst.	48.3	51.4	.....	7.72
Growth Trust	51.8	55.2	.....	2.22
Income Trust	53.6	57.1	.....	5.13

Wright Seligman Fund Managers Ltd
11 Blomfield St, London EC2M 7AY — 01-588 0592

Growth Fund	67.7	71.2xd	.....	2.95

Weekly dealing day Tuesday

The Yorkshire General Trust
Woodsome Pk, Fenay Bdge, Huddersfield — 0484 602250

Y.G.T.	122.2	130.1xd	+0.5	3.90

INSURANCES

AA Friendly Society
(Investment Mngt M & G Inv Mngt Ltd)
PO Box 93 Cardiff CF1 4NW — 0222 35542

AA Friendly Sy July 11	107.4	.....	—

Abbey Life Assurance Co Ltd
80 Holdenhurst Road, Bournemouth — 0202 292373

Prop. Ser. 1	205.4	216.3		—
Equity Ser. 4	101.2	106.6	+0.3	—
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INSURANCE, OVERSEAS & MONEY FUNDS

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

Money Market Trust Funds

Oppenheimer Money Management Ltd
66 Cannon St, EC4N 6AE 01-236 1425

		Net	Gr Equiv CAR	Int Cr
Call Fund	9.55	7.14	10.24	6-Mth
7-day Fund	9.71	7.26	10.41	6-Mth
Dollar	5.37	—	—	6-Mth

Money Market Bank Accounts

	Gross	Net	Gr Equiv CAR	Int Cr
Adam & Co. plc 22 Charlotte Sq, Edinburgh EH2 4DF 031-225 8484				
Full Service Cur Acc	9.25	6.80	9.82	Qtr
Aitken Hume 30 City Road, EC1Y 2AY. 01-638 6070				
Treasury Acc	9.25	6.91	9.99	Qtr
Mth. Inc. Cbq.	9.25	6.91	10.04	Mth
Allied Arab Bank Ltd 97-101 Cannon St, London, EC4N 5AD 01-283 9111				
High Int. Cheque Acc	10.125	7.57	11.24	Mth
Bank of Scotland 38 Threadneedle St, EC2P 2EH. 01-628 8060				
Money Mkt Cheque Acc	9.45	7.06	10.28	Mth
Barclays Prime Account PO Box 125, Northampton 0604 252891				
High Int. Cheque	9.50	7.10	10.5338	Qtr
Benchmark Trust Ltd 9 Henrietta Place, W1M 9AG. 01-631 3313				
Cap Chq Deposit Acc	10.00	7.47	10.88	Mth
Britannia Investment Services Ltd. 74-78 Finsbury Pavement, EC2A 1JD. 01-588 2777				
Cater Allen	9.50	7.10	10.3338	Mth
Charterhouse Bank Limited 1 Paternoster Row, EC4M 7DH. 01-248 4000				
Sterling	9.625	7.19	10.47	Mth
U.S. Dollar	5.87	4.39	6.31	Mth
German Marks	4.0	2.99	4.27	Mth
Swiss Francs	1.50	1.12	1.59	Mth
Japanese Yen	4.50	3.36	4.81	Mth
Citibank Savings St Martins Hse, Hammersmith Grove 01-741 4941				
Money Market Plus	£5,000+	7.50	10.93	Mth
For other rates please 'phone our Ratelines 01-846 9768				
Co-operative Bank Cheque & Save 78-80 Cornhill EC3 01-626 6543				
£500-£2,500	6.69	5.00	7.18	Qtr
£2,500 +	9.38	7.00	10.13	Qtr
Dartington & Co Ltd Dartington, Totnes, Devon TQ9 6JE 0803 862271				
Money Mkt Acc	9.50	7.10	10.30	Qtr
Henderson/Bank of Scotland 38 Threadneedle St EC2P 2EH 01-628 8060				
Money Mkt. Cheque Acc.	9.45	7.06	10.28	Mth
Legal & General (Money Mngrs) Ltd 355 Euston Road, NW1 3AG 01-388 3211				
High Int Dep Acc	9.70	7.25	10.39	6-mth
Lloyds Bank PLC 71 Lombard St, London EC3P 3BS 01-626 1500				
HighIntCheque Account	9.00	7.20	10.42	Qtr
Lombard North Central PLC 17 Bruton St, W1A 3DH 01-409 3434				
14-Day Notice	9.50	7.10	10.00	—
M & G/Kleinwort Benson M & G Hse., Victoria Rd., Chelmsford 0245 266266				
H.I.C.A. (£2,500+)	9.31	6.96	10.12	Daily
Midland Bank plc PO Box 2, Sheffield. 0742 20999 Ext 8655				
High Int Chq Acc	9.03	6.75	9.51	Qtr
£10,000 +	9.36	7.00	9.86	Qtr
NatWest Special Reserve Account 41 Lothbury, London, EC2P 2BP 01-256 9993				
£2,000 to £9,999	9.25	6.875	9.94	Qtr
£10,000 and above	9.375	7.00	10.12	Qtr
Oppenheimer Money Mgmnt Ltd 66 Cannon St, EC4N 6AE 01-236 1425				
Money Mngt. Acct.	9.375	7.01	—	3-Mth
Phillips & Drew Trust Ltd 120 Moorgate, London EC2M 6XP 01-628 9771				
High Int Chq Acc	9.50	7.10	10.27	Qtr
Provincial Trust 30 Ashley Rd, Altrincham, Cheshire 061-928 9011				
High Int Chq Acc	10.25	7.66	11.37	Mth
Royal Bank of Scotland plc 42 St Andrew Sq, Edinburgh EH2 2YE. 031-557 0201				
Premium Account	9.50	7.10	10.27	Qtr
Save & Prosper/Robert Fleming 28 Western Rd, Romford RM1 3LB. 0708 66966				
H.I.B.A.	9.23	6.90	10.06	Daily
Tyndall & Co 29-33 Princess Victoria St, Bristol 0272 732241				
Demand Acc	9.51	7.10	10.28	Qtr
Money Acc	9.53	7.12	10.30	Qtr
J. Henry Schroder Wagg & Co Ltd *Enterprise House, Portsmouth* 0705 827733				
Special Acc	9.00	6.73	9.77	Mth
Over £10,000	9.25	6.91	10.04	Mth
Western Trust & Savings Limited The Moneycentre, Plymouth PL1 1SE 0752 24141				
High Int Chq Acc	9.93	7.42	10.80	Qtr
Wimbledon & South West Finance Co Ltd 114 Newgate St, London EC1A 7AE. 01-606 9485				
High Int Cheque Acc	11.00	8.22	..	Qtr.

NOTES—Gross: rate to those exempt from composite rate of tax. Net: actual rate after deduction of CRT. Gr Equiv CAR: Gross equivalent to basic rate taxpayers—compounded annual rate. Int Cr: frequency interest credited.

NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % (shown in last column) allow for all buying expenses. a Offered prices include all expenses. b Today's prices. c Yield based on offer price. d Estimated. g Today's opening price. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. z Previous day's price. ¶ Guernsey gross. # Suspended. ♦ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ♦ Yield column shows annualised rates of NAV increase. xd ex dividend.

TRADITIONAL OPTIONS

3-month call rates

Industrials	p		
Allied-Lyons	28	Marks & Spencer	18
BAT	38	Midland Bk	44
BOC Grp	32	NEI	11
BSR	14	Nat West Bk	70
BTR	45	P & O Dfd	45
Babcock	28	Plessey	20
Barclays	45	Polly Peck	16
Beecham	32	Racal Elect	17
Blue Circle	55	RHM	20
Boots	26	Rank Org Ord	48
Bowaters	38	Reed Intnl	75
Brit Aerospace	48	Sears	12
Brit. Telecom	17	TI	42
Brown (J.)	3	Tesco	30
Burton Ord	32	Thorn EMI	35
Cadburys	17	Trust Houses	12
Charter Cons	22	Turner Newall	18
Comm Union	28	Unilever	120
Courtaulds	26	Vickers	40
Distillers	52	Wellcome	19
FNFC	15	Property	
Gen Accident	75	Brit Land	16
Gen Electric	17	Land Secs	30
Glaxo	100	MEPC	32
		Peachey	24
[illegible]	[illegible]	Samuel Props	18

A selection of Options traded is given on the London Stock Exchange Report Page.

LONDON SHARE SERVICE

BRITISH FUNDS

Interest Due		Stock	Price £	Last xd	Yield Int.	Yield Red.
"Shorts" (Lives up to Five Years)						
29 Apr	29 Oct	Exch. 14pc 1986	101⅛	24.3	13.86	9.75
21 May	21 Nov	Exch. 2½pc 1986	98¼	14.4	2.55	6.00
22Jul	22Jan	Exch. 13¼pc 1987	101⅜xd	16.6	13.06	9.90
10 Aug	10 Feb	Treas 10½pcCv '87	100⅛xd	16.7	10.24	9.88
24Aug	24Feb	Exch 2½pc 1987	97⅜xd	18.7	2.54	6.72
6Oct	6Apr	Exch. 10½pc 1987	100⅜	3.3	10.46	9.84
1 Nov	1 May	Funding 6½pc '85-87‡‡	98⅝	25.3	6.61	8.82
12Dec	12June	Treas. 10pc 1987	100⅛	5.5	9.98	9.73
14Jan	14July	Treas 3pc 1987	96¼	30.6	3.12	7.02
3May	3Nov	Treas. 12pc 1987	102⅛	28.3	11.73	9.85
26 Jul	26 Jan	Treas 7¾pc 1985-88‡‡	98⅛xd	19.6	7.90	9.13
10Nov	10May	Exch 10½pc '88	101¼	3.4	10.37	9.69
14Oct	14June	Treas 9¾pc Cv '88	100	8.5	9.75	9.73
1Jan	1July	Transport 3pc '78-88	93⅛	27.5	3.23	8.66
25 Apr	25 Oct	Treas. 9½pc '88	99⅝	19.3	9.54	9.65
22 Aug	22 Feb	Treas 11½pc 1989	104⅛xd	16.7	11.04	9.64
19 Oct	18 Apr	Treas 9½pc Cnv. '89	99⅞	12.3	9.52	9.56
15Nov	15May	Treas 3pc 1989	89⅞	8.4	3.33	7.02
14Dec	14Jun	Treas 10½pc 1989	102⅛	8.5	10.28	9.60
1Feb	1Aug	Exch 10pc 1989	100⅞xd	25.6	9.91	9.66
29 Mar	29 Sep	Exch 11pc 1989	103¾	20.2	10.60	9.56
15 Apr	15 Oct	Treas 5pc 1986-89	91⅝	10.3	5.45	7.95
15 May	15 Nov	Exch 10¼pcCv '89	105⅝	8.4	9.68	8.15
15 Jul	15 Jan	Treas 13pc 1990‡‡	110⅛	9.6	11.80	9.48
12 Aug	12 Feb	Exch 11pc 1990‡‡	104⅜xd	7.7	10.54	9.54
22 Sep	22 Mar	Exch. 12½pc 1990	108⅞	13.2	11.49	9.58
8 Nov	8 May	Treas. 3pc 1990	86½	1.4	3.46	7.11
15 Dec	15 Jun	Treas 8¼pc 1987-90‡‡	97⅞	9.5	8.46	9.00
25 Apr	25 Oct	Treas. 10pcCv 1990	101⅞	19.3	9.83	9.49
22 Nov	22 Nov	Exch. 2½pc 1990	83¼	15.4	2.98	6.89
10Jan	10July	Treas 11¾pc 1991	107⅞	3.6	10.87	9.51
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Five to Fifteen Years

[illegible]

Over Fifteen Years

[illegible]

Undated

[illegible]

Index-Linked

[illegible]

INT. BANK AND O'SEAS GOVT STERLING ISSUES

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

Financial

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

AMERICANS—Cont.

[illegible]

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Cont

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY & STORES—Cont.

[illegible]

ELECTRICALS

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Continued

[illegible]

INDUSTRIALS—Continued

[illegible]

INDUSTRIALS—Continued

INSURANCES

LEISURE

LEISURE—Continued

MOTORS, AIRCRAFT TRADES

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

PROPERTY—Continued

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

INVESTMENT TRUSTS—Cont.

FINANCE, LAND—Cont.

OIL AND GAS

OVERSEAS TRADERS

PLANTATIONS

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

MINES—Continued

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

Miscellaneous

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's
—		Anglo-Dominion	53½	—	—	—	—
—		Anglo Utd Dev.	28	24.7	1.07	♦	5.4
—		Colby Res Corp.	48½	—	—	—	—
Aug.	Feb.	Cons. Murch. 10c	165	14.7	Q100c	♦	12.2
—		Ennex Int. Ir10p	32	—	—	—	—
—		Greenwich Res.	92	—	—	—	—
Apr	Oct	Hampton Areas 10p	146	23.12	♦1.0	—	1.0
—		Highwood Res.	255	—	—	—	—
Fb Jun Ag Nv		Homestake Mining $1	£14½	30.1	Q20c	—	0.9
—		McFinley Red Lake	187	—	—	—	—
—		Musto Exploration	182	—	—	—	—
—		New Sabina Res C$1	37	—	—	—	—
—		Northgate C$1	205	977	—	—	—
Jan.	July	RTZ	549	12.5	22.0	2.8	5.7
Jan.	July	Do. 9½pcLn '95-2000	£127	12.5	Q9½%	15.5	7.5

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsetable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 29 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ♦ Figures or report awaited.
- ♥ Not officially UK listed; dealings permitted under Rule 535(4)(a).
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 535(3).
- ¶ Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ♦ Not comparable.
- ♦ Same interim: reduced final and/or reduced earnings indicated.
- § Forecast dividend, cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ‖ No par value.

B.Fr. Belgian Francs. Fr. French Francs. ♦♦ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend; cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Figures based on prospectus or official estimates for 1984. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1985. P Figures based on prospectus or other official estimates for 1983. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	60	..
Craig & Rose £1	£11	..
Finlay Pkg. 5p	43	
Holt (Jos) 25p	820	+10
IoM Stm. £1	86	......

IRISH

Fund 11¼% 1988	£102	−¼
Nat. 9¾% 84/89	£99½	−¼
Fin. 13% 97/02	£118½	..
Arnotts	330	
CPI Hldgs	43	
Carrol Inds.	160	
Dublin Gas	53	..
Hall (R. & H.)	75	
Heiton Hldgs.	33	
Irish Ropes	98	..
Unidare	203	

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(International Edition Page 23)

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £875 per annum for each security.

CONTRACTS

Manchester hospital project

The largest contract ever let by the North Western Regional Health Authority, worth about £17.75m, is phase two of the re-development at Manchester Royal Infirmary. It has been won by *JOHN LAING CONSTRUCTION*. The work has started and will take some 3½ years to complete. It involves a 27,000 sq metre, three-storey extension of the phase one building and is designed on the nucleus cruciform-shaped plan. The addition will contain 21 departments including acute wards, operating theatres, accident and emergency, X-ray and outpatients departments, teaching accommodation and plant rooms to service the entire building.

★

NORWEST HOLST has started erecting steelwork for Furness General Hospital's second phase, under a contract worth more than £6m. The work involves construction of some 9,000 sq metres of single and double storey extension block to the main building along with a separate works department structure and external works. This planned expansion to the hospital, which was first opened in 1984, will house departments of pharmacy and pathology, a mortuary, rehabilitation centre with hydrotherapy pool, out-patients and main entrance. Generally straightforward, the bulk of construction is structural steel frame with brick and block infill panels, supported on concrete strip and pad foundations. Also involved is the installation of all mechanical and electrical services using some of the latest energy-saving equipment. Completion of the extension is due in June 1988.

New Berkshire headquarters

What remains of the old Billy Smart's circus winter home at Winkfield, Berkshire, will soon disappear and work will begin to replace it with a new headquarters for the financial and banking services company, HFC Trust & Savings. WILLETT, part of the Trafalgar House Group, has won the £6.6m contract which is due for completion in the spring of 1988.

Willett began clearing the site in June. But the big top which once dominated the 17-acre site, will not be replaced by the usual type of modern office building, for the clients have opted for a classical Lutyens style country house, with traditional brickwork and chimneys, and the surrounds landscaped to include an ornamental lake, a football pitch and tennis courts.

Willett will, however, provide a sophisticated energy recycling system using the water in the lake to aid both the heating and cooling of the building depending on the season.

The interior, apart from offices for around 300 staff, will also include a restaurant and shop, a recreation room and dressing rooms.

£17m orders for Kyle Stewart

A contracts package worth almost £17m has been won by KYLE STEWART for construction projects including a clean room, an Islamic centre, warehouses and offices. Largest of the projects is a £4.25m contract for Sears Properties, at Garrick Rd, Hendon. A 9,300 sq metres warehouse and associated offices will be completed next year for use by the Miss Selfridge fashion group. In Factory Rd, Silvertown, £500,000 enabling works have begun in preparation for a design-and-construct package for Tate and Lyle expected to be worth about £4m. It is for a new warehouse and packaging hall of 8,000 sq metres and includes alterations to an existing building. Work has also started on a £3m design-and-construct project for a Class 1000 clean room facility at Chippenham, Wilts, for the Westinghouse Brake and Signal Co. Completion is due within a year. Due to start shortly is a £2.8m contract for construction of a six-storey office building for the Blackwall Green Group at Artillery Lane, Spitalfields. In Stanmore, Middlesex, the 200-year-old Grade II listed Warren House is being refurbished under a £2.4m management contract for the Khoja Shia Ithna-Asheri Muslim Community of London. It will provide facilities for a mosque, community activities and adult education when completed in 1988.

Florida leisure scheme

Two contracts, worth a total of US$9m (£6m), have been awarded to TAYLOR WOODROW CONSTRUCTION CORPORATION of New York. The company has been appointed construction manager by Lakewood Development Partnership for a US$5.5m (£3.7m) project, which is due for completion in October 1987, to provide infrastructure on a homes and leisure development at Leesburg, 33 miles north west of Orlando, Florida. The work consists of land grading for a golf course, a 40,000 sq ft club house, roads, sewers, drainage, landscaping and cables for television and telephones. When completed, the whole development will have 2,500 homes, tennis courts, shuffle-board courts, footpaths and cycle trails.

The other contract, valued at US$3.5m (£2.3m) has been placed by Hillsborough County Aviation Authority to build an automated passenger transit system at Tampa International Airport, Florida. The transit system will be 1,310 feet long and will carry passengers from an existing terminal to a future building. The steel-framed structure, including a concrete emergency walkway, will have piled foundations. Work is scheduled for completion in March 1987.

APPOINTMENTS

Managing director for BR Property Board

BRITISH RAILWAYS BOARD has appointed Mr Douglas Leslie as managing director of the British Rail Property Board. Mr Leslie, who is at present deputy managing director, takes up his new appointment at the end of September. He succeeds Mr Gavin Simpson, who is retiring.

★

Mr Brian Donnelly has been appointed regional director overseas travel within the THOMAS COOK GROUP. Mr Donnelly will be responsible for Europe (excluding the UK), Middle East and the Indian sub-continent. He also joins the board of Thomas Cook India.

★

ANDERSON STRATHCLYDE has made the following appointments: On July 28, Mr L. F. G. Walker becomes chairman of the Hoy division (Buckinghamshire) in addition to his role as chief executive of the engineering division. Mr A. Anderson becomes assistant secretary in addition to his role as director for business planning. Mr G. C. Stewart is appointed deputy director for personnel. Mr J. Thomson is divisional production director of the coal face equipment division. On August 18, Mr P. W. Ritchie is appointed divisional director and general manager of the tunnelling equipment unit, Bridgeton and East Kilbride, but will continue to be responsible for the performance of the company's electronics unit at Kirkintilloch, and Mr D. M. Maitland becomes divisional director and general manager of the MC switchgear unit at Kirkintilloch.

★

R. H. MORLEY GROUP has appointed Mr Chris Wildt as its chief executive. He comes to the R. H. Morley Group with a wide range of experience with Bowater Packaging, Booker McConnell and Courtaulds, having worked in both North America and the UK.

★

CHARLES BARKER CITY has appointed directors Mr Jasper Archer and Mr Peter Bostock vice chairmen with responsibility for business development. Mr Mike Northey joins as creative director.

★

Mr Robert L. Emett and Mr Richard A. Archer have been appointed to the JARDINE INSURANCE BROKERS GROUP board. Mr Emett's appointment is non-executive. Mr Archer is chairman of Jardine Emett & Chandler Inc, the new company formed by the merger of Jardine Insurance Brokers Inc and Emett & Chandler Companies Inc. Mr Emett was chairman and chief executive and Mr Archer president of Emett & Chandler.

★

Mr W. L. Pavry will succeed Mr V. O. Handscombe as managing director of PERARD TORQUE TENSION on July 1. Mr Pavry was formerly with Paxman Diesels, a GEC company.

★

Mr Peter Greensmith has joined FOOD BROKERS as product development director. For the past three years he was with Watney Mann and Truman Brewers as a director of Ushers.

★

Mr Rex Bradshaw has been appointed sales director of BRITANNIA GAS.

★

THE GIEVES GROUP has appointed Mr David Love a director. Mr Love will continue as managing director of the recently acquired Bookpoint.

★

Mr David Barnett has been appointed to succeed Mr Eric Tindall as director general of the ROAD TRANSPORT INDUSTRY TRAINING BOARD (RTITB), when Mr Tindall leaves the board in December.

This week in parliament

TODAY

Commons: Opposition debate on a motion entitled "The fight against crime—putting people first." After 7 pm, consideration of Lords amendments on the Gas Bill. Remaining stages of the Rate Support Grants Bill.

Lords: Crown Agents (Amendment) Bill, Third Reading. Social Security Bill, Third Reading. Financial Services Bill, Committee.

Select Committees: Treasury and Civil Service—Subject: International Credit and Capital Markets. Witnesses: Dr David Lomax, National Westminster Bank; Armen Kouyoumdjian, Intermex Bank (Room 15, 4.45 pm). Committee on a private Bill—Harwich Parkeston Quay (Room 5, 4.30 pm).

TOMORROW

Commons: Education Bill, remaining stages.

Lords: Housing (Scotland) Bill, consideration of Commons message. Wages Bill, Third Reading. Agriculture Bill, Third Reading.

Select Committees: Channel Tunnel Bill (Grand Committee Room, Westminster Hall, 10.30 am). Education, Science and Arts—Subject: Scrutiny session. Witnesses: Rt Hon Kenneth Baker, MP, Education Secretary, and officials (Room 15, 10.45 am). Private Bill Committee—Harwich Parkeston Quay (Room 5, 10.30 am).

WEDNESDAY

Commons: Consideration of Lords amendments to the Social Security Bill, Wages Bill and Agriculture Bill.

Lords: Financial Services Bill, Committee. Building Societies Bill, Third Reading.

Select Committee: Channel Tunnel Bill (Grand Committee Room, Westminster Hall, 2.30 pm).

THURSDAY

Commons: Consolidated Fund (Appropriation) Bill. Motion for the summer adjournment. Consideration of Lords amendments to the Building Societies Bill.

Lords: Social Security Bill, consideration of any Commons message. Public Order Bill, Committee. British Council Superannuation Bill, Second Reading and remaining stages.

Select Committee: Channel Tunnel Bill (Grand Committee Room, Westminster Hall, 10.30 am).

FRIDAY

Commons: Debates on the motion for the adjournment.

Lords: Finance Bill, Second Reading and remaining stages. Motions of approval on the Control of Pesticides Regulations 1986 and the Fireworks (Safety) Regulations 1986.

GENERAL

Updating banking methods

The Trustee Savings Bank Scotland has made a major commitment to banking automation through a £7m contract placed with PHILIPS BUSINESS SYSTEMS. The contract is for equipment from Philips PTS 6000 financial terminal systems range. The equipment will form an integrated branch automation network across the bank's 284 branches. Both front office and back office operations will be incorporated and the equipment will include branch controllers, terminal printers, VDUs and alphanumeric keyboards for back offices, and numeric keyboards with speedbank readers, pass book printers and VDUs for the counter positions. Installation is due to start in January 1987 with completion by July 1987. The network will connect with the English Trustee Savings Bank allowing branches from both banks to communicate with each other's mainframes.

★

The last two contracts for computer controlled signalling and communications equipment on the M25 have been awarded by the Department of Transport. This means that contracts worth £5.7m have now been placed for installation of the entire M25 system. The equipment will replace the current "Motorwarn" flashing amber lights with matrix warning signals throughout the entire length of the M25 by the end of 1987. The contract for the Welwyn and Heston control centres has been awarded to FERRANTI COMPUTER SYSTEMS. The contract for control centres at Godstone and Chigwell has been awarded to PLESSEY CONTROLS.

★

THOMPSON WELDING SYSTEMS, a part of NEI Thompson, has won orders worth a total of more than £4m for friction welding machines and welding robots. Friction welding machines have been sold to Caterpillar in the US and Belgium, to Fiat in Italy and Bacho in Sweden. Three machines have also been sold to the USSR. The Japanese construction equipment company Komatsu has ordered a flexible manufacturing system for its new plant at Birtley in Tyne and Wear. It will consist of three NEI Tomkat cartesian robots and a Tomkat articulated robot, all served by a moving truck loader. A further two robot cells are being supplied to Herman Miller, of Bristol, for welding furniture components, and to Redman Fisher, of Wolverhampton, for welding stair tread components. NEI Thompson is part of Northern Engineering Industries.

★

British Caledonian has placed an order for deluxe aircraft seats for the £2.5m refurbishment of the airline's DC-10-30 fleet economy class cabins. The seats, which set new standards of comfort and safety for B.Cal long haul international passengers, will be supplied under a £1.5m contract awarded to manufacturers, WEBER AIRCRAFT. The contract will create an additional 30 jobs at Weber's UK subsidiary, Weber-Futair, of Poole, near Bournemouth. The refurbishment programme will begin in November, and is due for completion in the spring 1987, on B.Cal's fleet of nine DC-10-30 aircraft, used to operate scheduled services to the US, Africa, the Middle and Far East.

★

An order for the supply of 125 Sherpa based mini-buses has been won by Carlyle Works, the Birmingham based National Bus Company subsidiary. The order valued at £2.5m has been placed by United Transport International on behalf of a new private sector bus company in which United Transport International has a major holding. Carlyle Works will be supplying the larger of its two Sherpa based models, with 18 seats, luggage space and room for five standing passengers.

★

STROMBERG has received an order from Reading and Bates Drilling Co worth £1.25m covering electrical equipment for the Zane Barnes semi-submersible drilling rig. This is the first of a new generation of drilling rigs and is designed to operate in severe environments and water depths up to 1,524 metres. Included in the order are five alternators with ratings of 6,730 kVA (2 off), 2,143 kVA (1 off), and 500 kVA (2 off). The rig's control and distribution switchgear is also being provided by Stromberg. The rig is being built in the Japanese Ishikawajima-Harima Heavy Industries' Nagoya shipyard at a cost of more than £60m.

★

MAWDSLEY'S has received an order from Vickers Shipbuilding & Engineering (VSEL) for d.c. and a.c. motors from 15-55 kW and motor generator sets up to 140 kW valued at £185,000. They are spares for the Upholder class Type 2400 submarine, the first of which is under construction at the works of VSEL. Four are on order and approximately 12 more are planned.

★

CONSULTANTS (COMPUTER & FINANCIAL) has received its first major orders for its recently launched market making and trading information system (MATRIS). The orders, worth around £750,000, have been placed by stockbrokers, Capel Cure Myers and Kitcat & Aitken. MATRIS interfaces with SEAQ (Stock Exchange Automated Quotations) and receives its price feeds from the Stock Exchange's CRS (Computer Readable Services) hot-line service. Capel Cure Myers will operate MATRIS on an IBM 4361 having transferred CCF's stockbroking system FISCAL to a larger IBM 4381. Both Capel Cure Myers and Kitcat & Aitken will also utilise CCF's partner back office MATRIS Settlement System which benefits from full integration with the front office system.

★

BASE TEN SYSTEMS has received an order worth more than £400,000 for the supply of subscriber terminal equipment for a new alarm reporting service based on British Telecom's Red CARE system. The order has been placed by Telecom Security, who intend to use the equipment in conjunction with the CARE service to offer a comprehensive alarm system with continuous 24-hour alarm monitoring to domestic householders.

WEEK'S FINANCIAL DIARY

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

TOMORROW

WEDNESDAY JULY 23

THURSDAY JULY 24

FRIDAY JULY 25

SATURDAY JULY 26

BUSINESSMAN'S DIARY

UK TRADE FAIRS AND EXHIBITIONS

Current
Gift Trade Fair (0282 867153) (until July 21) — Harrogate Exhibition Centre

July 24-27
Acorn Computer User Christmas Show (01-349 4667) — Barbican Centre

July 29-August 3
British Music Fair—MAKING MUSIC (01-385 1200) — Olympia

July 31-August 3
National Fitness and Health Exhibition — PHYSICAL (0273 206722) — Kensington Exhn Centre

August 5-10
Women's World Exhibition (0272 215206) — Bristol

August 7-10
Collectors Fair for Antiques and Memorabilia (021-780 4171) — NEC, Birmingham

August 17-19
International Craft and Hobby Fair (04252 72711) — Wembley Conference Centre

August 31-September 2
International Jewellery Exhibition (0935 20721) — Barbican Centre

September 1-5
Castings and Forgings Exhibition; Furnaces Exhibition; International Foundry Exhibition; Metallurgical Plant Exhibition; Metalworking International Exhibition (0737 68611). International Metalcutting Machine Tools Exhibition (01-402 6671). Subcontracting Exhibition, including Surface Treatment and Finishing (01-486 1951) — NEC, Birmingham

September 2-4
Coil Winding International Exhibition (0202 743906) — Wembley Conference Centre

September 5-6
Vacancies in systems and information technology — VISIT '86 (01-840 7117) — Hotel InterContinental, W1

September 9-12
International Freight Industry Conference and Exhibition — WORLD FREIGHT (01-642 7685) — Barbican Centre

September 12-20
International Boat Show (0703 32348) — Southampton

OVERSEAS TRADE FAIRS

Current
International Laboratory Equipment Exhibition — LABEX (021-705 6707) (until July 24) — Sydney

August 17-23
City Planning Exhibition (021-705 6707) — Xiamen

August 20-23
Office Technology and Computer Exhibition (01-486 1951) — Kuala Lumpur

August 23-31
International Trade Fair (Consumer Goods) — INT SKANE-MASSAN (01-486 1951) — Malmo

August 26-28
Finnish Fashion Fair (01-486 1951) — Helsinki

August 31-September 6
International Autumn Fair (01-240 7013) — Leipzig

September 10-14
International Autumn Fair (01-977 4551) — Vienna

September 17-24
International Engineering Fair (021-455 9600) — Brno

September 23-28
International Road, Rail, Sea and Air Transportation Exhibition (01-968 4567) — Guangzhou

September 30-October 4
International Machine Tool Trade Fair—INTERTOOL (01-977 4551) — Vienna

October 6-12
International Wine and Spirits Show (0494 775444) — Montreal

October 16-21
International Office Trade Fair—ORGATECHNIK (01-930 7251) — Cologne

October 22-25
International Garment Fabrics Accessories, Technology and Machinery Exhibition (0494 775444) — Hong Kong

BUSINESS AND MANAGEMENT CONFERENCES

July 31
London Chamber of Commerce: Seminar on the cause and effects of the "big bang" (01-248 4444) — Savoy Hotel, WC2

August 13
Management Training Consultants: Successful supervision (Leicester 27062) — Hatfield

August 26-28
FT Conference: World aerospace to the end of the century (01-621 1355) — Hotel Inter-Continental, W1

August 28-29
The Roebens Institute: Hazards in water—a national seminar to discuss the implications for human health of contaminants of the water cycle — University of Surrey, Guildford

September 4-5
Euromoney Conferences: Eurobonds '86 New opportunities in creative markets (01-236 3288) — Grosvenor House, W1

September 8-10
Institute for Personnel Management: Personnel statistics (01-946 9100) — Embassy Hotel, W2
Frost and Sullivan: Introduction to OSI and its support for message handling systems (01-935 4433) — Regent Crest Hotel

September 11
SFS: Stress (01-736 0134) — The Royal Garden Hotel, W8

September 15-16
GDI International Conferences: Intelligent buildings (Zurich 01 724 0020) — Zurich

September 15
Copper Development Association: Aluminium bronzes for industry (0707 50711) — Cavendish Conference Centre, W1

September 16-17
Fuel and Metallurgical Journals: Independent power generation conference and exhibition IN POWER 86 (0737 68611) — Excelsior Hotel, Heathrow

September 24-25
Euromoney two-day seminar: (1) Options—a risky business? (2) Hedging can be fun (01-236 3288) — Grosvenor House Hotel, W1

September 25-26
FT Conference: Pacific Basin oil and gas — prices, investment and the business outlook (01-621 1355) — Hotel Regal Meridien, Kowloon

September 26
BPICS: Modern asset management (0279 56695) — Hilton Hotel, W1

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.

WORLD STOCK MARKETS

AUSTRIA

BELGIUM/LUXEMBOURG

DENMARK

FRANCE

NORWAY

ITALY

GERMANY

AUSTRALIA

SWITZERLAND

NETHERLANDS

SWEDEN

SINGAPORE

HONG KONG

SOUTH AFRICA

JAPAN

SPAIN

CANADA

TORONTO

Closing prices July 18

MONTREAL

Closing prices July 18

OVER-THE-COUNTER

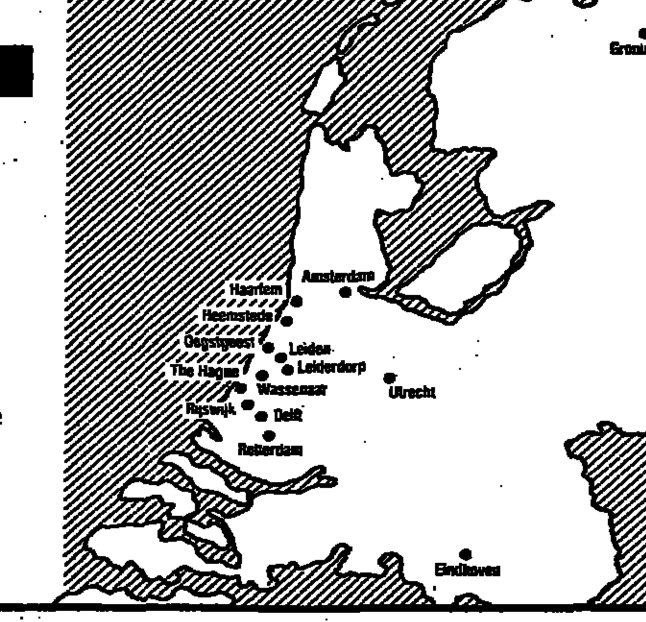
Nasdaq national market, closing prices July 18

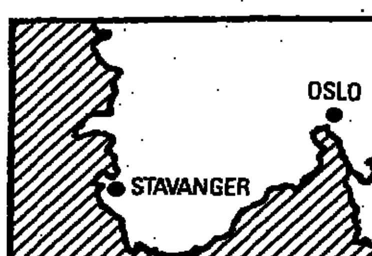
Continued from Page 31

NEW YORK

Indices

NEW YORK ACTIVE STOCKS





Closing prices, July 18

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
26½	13½	AAR s	.44	1.9	18	45	23⅜	22¾	23	+½
30	27¾	ADT	.92	4.2		61	22½	22⅛	22⅛	
33	11½	AFG s			24	1377	30	29⅞	29¾	−¼
25⅜	13¾	AGS			13	9	17¾	17½	17½	−½
60⅝	37½	AMR			12	3810	49	47⅞	48⅝	−¼
12⅛	8	APL			6	12	11⅜	11¼	11⅜	+⅛
16¾	11⅛	ARX	.71t	6.0	11	17	11⅞	11¾	11⅞	
51	28¾	ASA	2a	6.4		691	31⅜	30⅞	31¼	+¾
18⅜	10½	AVX		2.8		1094	11¼	10¾	11¼	
32	22⅝	AZP	2.72	8.7	8	1055	31⅛	31	31⅛	+⅛
55	28⅜	AbtLb s .84		1.7	23	2879	51	48⅞	50½	+1
32	19⅝	AccoWd.58		2.1	18	103	27	26½	26½	−⅝
17	10	AcmeC .40		3.8		75	11⅛	10½	10⅝	−½
9¼	7	AcmeE.32b		4.0	20	6	8	8	8	+⅛
20¾	17	AdaEx 1.90e		9.4		94	20⅜	20⅛	20¼	
33⅜	16	AdmMl .40		1.3	14	72	30⅞	30¾	30⅞	
20⅜	11¼	AdvSys.83t		4.9	15	103	17¼	16⅝	17	
32⅞	14¼	AMD				4860	14⅞	14¼	14⅜	−⅜
12⅝	6¾	Adobe n				66	7⅛	6⅞	7	
16⅜	14⅝	Adob pf 1.84		12.		z61	15	14⅞	15	+⅜
20¼	15¼	Adob pf 2.40		14.		z9	17⅜	17½	17½	−⅜
16⅜	7⅜	Advest .12a		.8	13	260	15⅞	15⅝	15¾	−⅛
66¼	42¼	AetnLf 2.64		4.4	11	3222	59¾	58⅛	59⅝	+1¼
57½	51½	AetL pf4.28e		8.1		100	52¾	52¾	52¾	
28¾	9⅝	Ahmns s .46		1.8	8	2797	27	25¾	26	−1
5¾	2½	Aileen			90	78	4¾	4½	4½	−¼
41⅝	25¾	AirPrd s .80		2.5	13	4156	34	31⅞	32½	+1¼
27¾	16	AirbFrt .60		3.5	15	41	17⅝	17⅛	17⅛	−⅜
2⅛	⅜	AlMoan .60o			32	u22¼	13-32	22¼	+21	27-32

Continued on Page 31

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NYSE COMPOSITE CLOSING PRICES

Continued from Page 30

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
43⅞	23⅞	Zayre s	.32	.9	22	2819	37½	36⅝	36⅝	−⅜
29⅞	16¼	ZenithE				1471	23⅛	22⅞	22⅞	−⅜
18¼	8⅝	ZenLb s			16	3101	12⅝	12	12⅜	−¼
22⅜	14¾	Zero s	.20	1.8	16	108	16⅜	16⅛	16⅜	+⅛
45¾	33	Zurnin	1.32	3.8	12	437	34⅞	34¼	34½	−½

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when *issued. ww-with warrants. x-ex-divident or ex-rights.* xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in-full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Closing prices, July 18

OVER-THE-COUNTER

Nasdaq national market, closing prices July 18

Continued on Page 29

هكذا من الأصل

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

Facing an unpalatable choice

BY COLIN MILLHAM

Put in rather simple terms the US Administration will allow the *dollar to depreciate against the* Japanese yen and the West German Deutsche Mark, to correct imbalances in trade, unless the authorities in Japan and West Germany are prepared to cut domestic interest rates and stimulate demand.

Faster economic growth in both countries would supply a new locomotive for the world train, at a time when the US engine appears to be running out of steam. The argument continues that by encouraging imports, Japan and West Germany would help revive the flagging US economy, and all three could lead the world forward at a faster pace, helping to alleviate the problems of stagnating third world economies, and the high level of debt among under developed countries.

Inflation is at very low levels. The latest figures show consumer prices in the US rising at a year-on-year rate of 1.6 per cent; in Japan at 1.1 per cent; and in West Germany falling at 0.2 per cent. There also seems to be little prospect of increasing inflationary pressure from costs of raw materials. Oil prices have fallen from about $30 a barrel to $10 a barrel, as the Organisation of Petroleum Exporting Countries struggles without success to agree on quota cuts, to bring supply and demand back into line, and revive the strength of its cartel.

Further evidence of the slowdown in the US economy is likely to be provided by tomorrow's figures on second quarter gross national product. Growth in the first quarter was around 3 per cent, but figures in recent months on leading indicators, durable goods orders, retail sales and others, suggest second quarter GNP growth was only about 1 per cent. According to Merrill Lynch there may have been no growth at all.

To a large extent this figure is already built into the present value of the dollar, and therefore disappointing growth may not have too much impact.

The market has also learnt from the lessons of the past, and has managed to keep steady downward pressure on the dollar, relieved with periods of profit taking, without running large short positions. This makes it much more difficult for the West German Bundesbank and the Bank of Japan to intervene and *punish speculation.*

Further steady pressure can be expected. Technical resistance at around DM 2.15 appeared to *be broken on Friday*. Dealers also foresee resistance at around DM 2.12, while DM 2.10 is likely to prove a psychological barrier.

Last week the dollar established a new trading range against the yen, at a record low of under Y160, with the market now looking towards Y155.

Mr Henry Kaufman, chief economist of Salomon Brothers, and one of the most influential economic commentators in the US, suggested last week the dollar was likely to fall to DM 2.00 and Y150.

This is the problem facing West Germany and Japan. Neither country feels at fault, seeing their own rates of growth as adequate, and showing reluctance to reflate. The Bank of Japan and West German Bundesbank declined the opportunity to cut their discount rates, in spite of the US move the previous week. But the alternative is to see export markets lost because of the strength of the yen and D-Mark.

A report last week said Japanese workers are the highest paid in the world, in dollar terms, and more companies will be forced to build factories abroad to remain competitive.

£ IN NEW YORK

July 18	Close	Prev. close
£ Spot	$1.5095-1.5105	$1.5115-1.5125
1 month	0.46-0.43pm	0.44-0.42pm
3 months	1.25-1.21pm	1.23-1.20pm
12 months	4.47-4.37pm	4.40-4.35pm

Forward premiums and discounts apply to the US dollar

CURRENCY MOVEMENTS

July 18	Bank of England Index	Morgan Guaranty Change %
Sterling	73.3	−18.5
U.S. dollar	112.6	+5.1
Canadian dollar	78.5	−12.0
Austrian schilling	127.7	+7.5
Belgian franc	95.2	−7.2
Danish Kroner	86.4	−0.6
Deutsche mark	136.8	+16.1
Swiss franc	164.4	+20.7
Guilder	126.7	+10.6
French franc	69.0	−13.7
Lira	46.7	−17.0
Yen	216.6	+60.2

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (base average 1975=100).

OTHER CURRENCIES

July 18	£	$
Arg'tina	1.3455-1.3480	0.9000-0.9010
Aus'alia	2.3460-2.3485	1.5670-1.5685
Brazil	20.58-20.71	13.77-13.84
Finland	7.5745-7.5970	5.0675-5.0725
Greece	206.72-210.38	137.50-139.86
H'kong	11.6710-11.6920	7.8120-7.8140
Iran	117.00*	77.60*
K'wait	[illegible]	[illegible]
Luxb'rg	66.10-66.20	43.95-44.05
Malaysia	[illegible]	[illegible]
N Z'land	[illegible]	[illegible]
Saudi Ar	[illegible]	[illegible]
Sing'pore	[illegible]	[illegible]
S.Af.(Cm)	[illegible]	[illegible]
S.Af.(Fn)	[illegible]	[illegible]
U.A.E.	[illegible]	[illegible]

* Selling rate.

CURRENCY RATES

July 18	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.795123	0.660751
US $	6	1.19006	0.987492
Canadian $	8.57	*	1.36027
Austria Sch	4	18.0127	14.9506
Belgian Fr	8	52.7911	43.8817
Danish Kr	7	9.59664	7.96610
D'mark	3½	2.55932	2.13706
Guilder	[illegible]	[illegible]	[illegible]
French Fr	[illegible]	[illegible]	[illegible]
Lira	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]
Norway Kr	[illegible]	[illegible]	[illegible]
Span'h Pta	[illegible]	[illegible]	[illegible]
Swedish Kr	[illegible]	[illegible]	[illegible]
Swiss Fr	[illegible]	[illegible]	[illegible]
Greek Drch	[illegible]	[illegible]	[illegible]
Irish Punt	[illegible]	[illegible]	[illegible]

* CS/SDR rate for July 17: 1.63841
(1) SDR rate for July 17.

POUND SPOT—FORWARD AGAINST POUND

[illegible]

Belgian rate is for convertible francs. Financial franc 66.35-66.45. Six-month forward dollar 2.47-2.42c pm. 12-month 4.50-4.35c pm.

DOLLAR SPOT—FORWARD AGAINST DOLLAR

[illegible]

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 44.10-44.20. Above average activity was noted in the following stocks yesterday

FORWARD RATES AGAINST STERLING

	Spot	1-month	3-month	6-month	12-month
Dollar	1.5035	1.4990	1.4913	1.4791	1.4593
D-Mark	3.2025	3.1875	3.1605	3.0773	3.0457
French Franc	10.3550	10.3463	10.2380	10.2280	10.1286
Swiss Franc	2.6450	2.6335	2.6129	2.6103	2.5271
Japanese Yen	235.00	233.95	231.94	234.38	223.78

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu July 18	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	43.6761	43.8817	+0.47	+0.87	±1.5388
Danish Krone	7.91896	7.96610	+0.60	+1.00	±1.6408
German D-mark	2.13834	2.13706	−0.06	+0.33	±1.1202
French Franc	6.96280	6.87147	−1.31	−0.91	±1.3701
Dutch Guilder	2.40935	2.39793	−0.47	−0.07	±1.5081
Irish Punt	0.712956	0.714022	+0.15	+0.55	±1.6669
Italian Lira	1496.21	1460.32	−2.39	−2.31	±4.0788

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

LIFFE LONG GILT FUTURES OPTIONS

[illegible]

LIFFE US TREASURY BOND FUTURES OPTIONS

[illegible]

LIFFE £/$ OPTIONS

£25,000 (cents per £1)

[illegible]

LONDON SE £/$ OPTIONS

£12,500 (cents per £1)

[illegible]

PHILADELPHIA SE £/$ OPTIONS

£12,500 (cents per £1)

[illegible]

LIFFE—EURODOLLAR OPTIONS

$1m points of 100%

[illegible]

LONDON

20-YEAR 12% NOTIONAL GILT £50,000 32nds of 100%

[illegible]

US TREASURY BONDS 8% $100,000 32nds of 100%

[illegible]

10% NOTIONAL SHORT GILT £100,000 64ths of 100%

[illegible]

THREE-MONTH STERLING £500,000 points of 100%

[illegible]

FT-SE 100 INDEX £25 per full index point

[illegible]

THREE-MONTH EURODOLLAR $1m points of 100%

[illegible]

US TREASURY BILLS (IMM) $1m points of 100%

[illegible]

THREE-MONTH EURODOLLAR (IMM) $1m points of 100%

[illegible]

CHICAGO

US TREASURY BONDS (CBT) 8% $100,000 32nds of 100%

[illegible]

CERT. DEPOSIT (IMM) $1m points of 100%

[illegible]

CURRENCY FUTURES

POUND—$ (FOREIGN EXCHANGE)

IMM—STERLING $e per £

LIFFE—STERLING £25,000 $ per £

[illegible]

EXCHANGE CROSS RATES

July 18	£	$	DM	YEN	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1.	1.504	3.203	235.0	10.37	2.592	3.605	2201.	2.066	66.15
$	0.665	1.	2.130	156.4	6.896	1.724	2.40	1464.	1.374	44.00
DM	0.312	0.469	1.	73.38	3.237	0.809	1.126	687.1	0.645	20.66
YEN	4.255	6.398	13.63	1000.	44.11	11.03	15.35	9364.	8.791	281.5
F Fr.	0.965	1.451	3.090	226.7	10.	2.501	3.480	2123.	1.993	63.82
S Fr.	0.386	0.580	1.236	90.66	3.999	1.	1.392	849.0	0.797	25.53
H Fl.	0.277	0.417	0.888	65.14	2.873	0.719	1.	610.0	0.573	18.34
Lira	0.454	0.683	1.456	106.8	4.710	1.178	1.639	1000.	0.939	30.06
C $	0.484	0.728	1.550	113.7	5.017	1.255	1.746	1065.	1.	32.02
B Fr.	1.512	2.273	4.841	355.3	15.67	3.918	5.454	3327.	3.183	100.

Yen per 1,000: French Fr per 10: Lira per 1,000: Belg Fr per 100.

EURO-CURRENCY INTEREST RATES

[illegible]

Long-term Eurodollars: two years 7⅜-7¾ per cent; three years 7⅝-7⅞ per cent; four years 7⅞-8⅛ per cent; five years 8-8¼ per cent nominal. Short-term rates are call for US Dollars and Japanese Yen; others, two days' notice.

MONEY MARKETS

Optimism fades

Any remaining optimism about interest rates drained from the *London money market last week.* UK economic news suggested an immediate cut in bank base rates would be most welcome. *Industrial production in May* fell by 1.5 per cent, and unemployment in June rose by 15,000 to 3.22m, after allowing for seasonal *adjustments*, but *these* figures had little or no impact on the money market.

Attention was focussed on oil *prices* and *sterling*, both of which were nervous and vulnerable. On Monday North Sea Brent was quoted below $9 a barrel, and *the pound lost over 2 cents to* $1.4815, while falling within sight of the record low touched against the D-mark on March 3. Sterling showed some recovery against a weakening dollar, but remained weak overall.

The final money supply figures for mid-June confirmed sharp growth in sterling M3, at an annual rate of 18.3 per cent for *the last 12 months and 33.6 per* cent for the last three months. Average earnings in May of 7.5 per cent were in line with expec*tations, but there was some* encouragement in a decline in underlying earnings in manufacturing to 7.5 per cent in May *from 9 per cent in September.*

These figures are unlikely to encourage the Bank of England to allow lower interest rates, particularly against the background of the nervous pound.

The discount houses had seen enough by Tuesday, and decided *to sell their* long dated band four bills to the Bank of England. The houses prefer to hold on to long dated paper at times when interest rates are expected to fall, and have now decided the prospects are that rates will remain around 10 per cent for some time.

UK clearing bank base *lending rate*, 10 per cent since May 22

NEW YORK RATES

(4 pm)

Prime rate	8
Broker loan rate	7¾
Fed funds	6¾
Fed funds at intervention	6⅞

Treasury Bills & Bonds

One month	5.32
Two month	5.65
Three month	5.68
Six month	6.03
One year	6.14
Two year	6.55
Three year	6.66
Four year	6.79
Five year	6.88
Seven year	7.07
10 year	7.14
30 year	7.19

BANK OF ENGLAND TREASURY BILL TENDER

	July 18	July 11		July 18	July 11
Bills on offer	£100m	£100m	Top Accepted rate of discount	9.4464%	9.4058%
Total of applications	£194m	£322.6m	Average rate of discount	9.5826%	9.3907%
Total allocated	£100m	£100m	Average yield	9.56%	9.62%
Minimum accepted bid	£97.595	£97.665	Amount on offer at next tender	£100m	£100m
Allotment at minimum level	34%	81%			

WEEKLY CHANGE IN WORLD INTEREST RATES

LONDON	July 18	change	NEW YORK	July 18	change
Base rates	10	Unch'd	Prime rates	8	Unch'd
7 day interbank	10⅛	Unch'd	Federal funds	6⅝	−⅛
3mth interbank	9⅞	Unch'd	3 Mth. Treasury Bills	5.70	−0.05
Treasury Bill Tender	9.5826	+0.1919	6 Mth. Treasury Bills	5.78	−0.01
Band 1 Bills	9⅞	Unch'd	3 Mth. C D	6.32	−0.08
Band 2 Bills	9¾	Unch'd			
Band 3 Bills	9⅝	Unch'd	FRANKFURT		
Band 4 Bills	9½	Unch'd	Lombard	5.5	Unch'd
3 Mth. Treasury Bills	9⅜	+⅛	One mth. Interbank	4.60	Unch'd
1 Mth. Bank Bills	9¾	[illegible]	Three month	4.60	Unch'd
3 Mth. Bank Bills	9⅝	[illegible]	PARIS		
TOKYO			Intervention Rate	7	Unch'd
One month Bills	4.65625	Unch'd	One mth. Interbank	7⅛	Unch'd
Three month Bills	4.71875	Unch'd	Three month	7⅛	Unch'd
BRUSSELS			MILAN		
One month	7⅛	[illegible]	One month	11¼	Unch'd
Three month	7⅛	Unch'd	Three month	11⅛	Unch'd
AMSTERDAM			DUBLIN		
One month	5⅞	[illegible]	One month	9⅞	[illegible]
Three month	5⅞	[illegible]	Three month	9⅝	[illegible]

London—band 1 bills mature in up to 14 days, band 2 bills 15 to 33 days, band 3 bills 34 to 63 days and band 4 bills 64 to 91 days. Rates quoted represent Bank of England buying or selling rates with the money market. In other centres rates are generally deposit rates in the domestic money market and their respective changes during the week.

FT LONDON INTERBANK FIXING

(11.00 a.m. July 18)

Three months US dollars		Six months US dollars	
bid 6½	Offer 6⅝	bid 6½	Offer 6⅝

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 am each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

LONDON MONEY RATES

[illegible]

Treasury Bills (sell): one-month 9⅝ per cent; three months 9⅝ per cent. Bank Bills (sell): one-month 9⅝ per cent; three months 9⅝ per cent. Treasury Bills: Average tender rate of discount 9.5826 per cent. ECGD Fixed Finance Scheme IV reference date June 4 to July 1 (inclusive) 9.824 per cent. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 10 per cent from July 1 1986. Bank Deposit Rates for sums at seven days' notice 4.35-4.375 per cent. Certificates of Tax Deposit (Series 6): Deposit £100,000 and over held under one month 10 per cent; one-three months 10 per cent; three-six months 10 per cent; six-nine months 10 per cent; nine-12 months 10 per cent. Under £100,000 10 per cent from July 16. Deposits held under Series 5 10 per cent. Deposits withdrawn for cash 5½ per cent.

MONEY RATES

[illegible]

ALLIANCE & LEICESTER

Alliance & Leicester Building Society

£300,000,000

Floating Rate Notes 1994

Notice is hereby given that the Notes will bear interest at 10.08% per annum for the interest period 18th July, 1986 to 20th October, 1986.
Interest payable on the relevant interest payment date, 20th October, 1986 will amount to £129.80 per £5,000 Note.

Agent Bank:
Morgan Guaranty Trust Company of New York
London

Malayan Banking Berhad

US $60,000,000

Negotiable Floating Rate Dollar
Certificates of Deposit due 1987 Tranche B

In accordance with the provisions of the Certificates, *notice is hereby given that the rate of interest for the* period from 21st July 1986 to 21st October 1986 has been established at 6 13/16 per cent per annum.

The interest payment date will be 21st October 1986. Payment which will amount to US $4,352.43 per Certificate will be made against the relative Certificate.

Agent Bank
Bank of America International Limited

COMMUNAUTE URBAINE DE MONTREAL
(MONTREAL URBAN COMMUNITY)

US$50,000,000
FLOATING RATE NOTES DUE 1989

Bondholders are hereby informed that the rate applicable to the fifth period of interest has been fixed at 6.75% per annum.

The coupon No. 5 will be payable on the 20 January 1987 at the price of US$350.63 representing 187 days of interest, covering the period as from 17 July 1986 to 19 January 1987 inclusive.

DBS BANK
The Reference Agent

21 July 1986

Rowe Evans INVESTMENTS PLC

The Rowe Evans Investments PLC Group has interests in rubber and oil palm plantations in Malaysia and Indonesia held either directly by Group companies or indirectly through related companies. The Group also holds a portfolio of investments which are mainly in the plantation industry.

Commenting on the results, **Mr. E. Hadsley-Chaplin**, Chairman and Managing Director, states:

"During the year which ended on 31st December, 1985 we witnessed weaker palm oil prices, continuing weak rubber prices and Sterling strengthening against both the Malaysian Ringgit and the Indonesian Rupiah. Profit attributable to shareholders declined to £1,026,000 for the year compared with £1,765,000 for 1984. A dividend of 1.50p per share is recommended, compared with 2.25p last year.

In the plantation business it is not practical to have confidence that profits can be on an ever increasing upward spiral. On the other hand it is a fact that over a period of time the underlying asset value of plantation shares has increased in line with, and very often more than, the level of inflation. At present, commodities generally are at a low ebb and although palm oil has increased slightly in price in the last few weeks it is only half the value it was marketed at twelve months ago. As far as I am aware, no forecaster saw a price level for palm oil down to US$220 per tonne, the low point reached earlier this year. Having regard to the price level of both rubber and palm oil I feel I can claim with justification that the Group has performed well.

I should like to emphasise that it is our view that the current setback in commodity prices is temporary and the outlook for world consumption in the middle and long term for vegetable oils is encouraging.

The Group has made substantial progress with its Simpang Kiri project and in a few years time we should have about 2 to 2½ thousand hectares of oil palm and we shall then have to give consideration to the erection of our own mill. Our main estate, Pangkatan, has performed very well, as has our Sungei Kruit Estate in Malaysia.

We shall continue to work all of our estates economically and every effort will be made to achieve the maximum possible profits."

Copies of the Report and Financial Statements may be obtained from the Secretaries: M. P. Evans Secretarial Services Limited, Tubs Hill House, London Road, Sevenoaks, Kent, TN13 1DG.

Granville & Co. Limited

Member of The National Association of Security Dealers and Investment Managers

8 Lovat Lane London EC3R 8BP — Telephone 01-621 1212

Capitalisatn. £000's	Company	Price	Change on week	Gross div.(p)	Yield %	P/E Actual	P/E Fully taxed
4,415	Ass. Brit. Ind. Ord.	131	—	7.3	5.6	8.0	7.5
—	Ass. Brit. Ind. CULS	131	—	10.0	7.6	—	—
6,657	Airsprung Group	115	−5	7.6	6.6	7.2	6.4
825	Armitage and Rhodes	33	−1	4.3	13.0	4.1	4.9
58,507	Bardon Hill	182xd	+4	4.6	2.5	20.7	19.0
4,302	Bray Technologies	78	—	4.3	5.5	9.3	8.5
263	CCL Ordinary	75	—	2.9	3.9	5.3	8.3
1,075	CCL 11pc Conv. Pf.	86	—	15.7	18.3	—	—
12,718	Carborundum Ord.	212	+4	9.1	4.3	10.2	10.5
630	Carborundum 7.5pc Pf.	90	—	10.7	11.9	—	—
4,656	Deborah Services	60	+1	7.0	11.7	6.3	8.2
3,323	Frederick Parker Group	23	—	—	—	—	—
2,214	George Blair	120	+1	5.2	4.3	3.1	4.4
2,802	Ind. Precision Castings	69	+2	3.0	4.3	18.2	15.2
13,224	Isis Group	166	+1	15.0	9.0	12.8	19.1
6,249	Jackson Group	120	—	6.1	5.1	8.2	7.3
48,689	James Burrough	349	—	17.0	4.9	9.8	8.9
3,602	James Burrough 9pcPf.	100	+1	12.9	12.9	—	—
5,940	John Howard and Co.	57	—	5.0	8.8	—	—
46,449	Minihouse Holding NV	1420	+120	8.7	0.6	46.9	55.6
8,740	Record Ridgway Ord.	380	—	—	—	6.6	11.7
2,403	Record Ridgway 10pcPf	89	—	14.1	15.8	—	—
745	Robert Jenkins	73	—	—	—	9.5	20.9
2,100	Scruttons "A"	35	+2	—	—	—	9.0
2,248	Torday and Carlisle	52	+2	5.7	8.2	6.6	5.6
1,450	Trevian Holdings	320	—	7.9	2.5	6.7	8.8
10,519	Unilock Holdings	67	+4	2.1	3.1	18.2	17.8
22,944	Walter Alexander	177	+3	8.6	4.9	10.0	12.2
4,434	W. S. Yeates	190	—	17.4	9.2	19.0	21.1

THE FINANCIAL TIMES
is proposing to publish a Survey on
THE WORLD ECONOMY
on Monday, September 29, 1986
Advertising copy date for this Survey is Friday, August 15, 1986
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